

SDG 1: No Poverty

“Trade remains critical to delivering on so many national and global priorities: boosting growth, expanding economic opportunities, meeting the Sustainable Development Goals ... without cooperation on trade, we would move towards an increasingly fragmented world economy, and all of these priorities would become harder, costlier, and in some cases impossible to achieve.

WTO Director-General Ngozi Okonjo-Iweala, MC13 opening Ceremony, 26 February 2024 (WTO, 2024d)

Multilateral trade has led to rising income levels and reduced poverty

One of the most striking features of the global economy in the recent decades has been how trade-enabled growth has brought incomes in developing economies closer to those of rich economies. Trade, and in particular the integration of developing economies into global value chains (GVCs), has contributed to improvements in income and productivity across economies (WTO, 2023).

Since 1995, decreasing trade costs have enabled an increase in trade, as containerization and technological developments have lowered transportation and communication costs and tariffs and non-tariff measures (NTMs) have been reduced, many of them through multilateral, plurilateral and regional trade agreements. Global trade costs declined by 15 per cent between 2000 and 2018, according to the WTO Trade Cost Index.¹ In 1995, through the newly created WTO, members committed to a rules-based multilateral trade regime providing a predictable trading environment that has fostered trade and growth for the past 30 years. Between 1995 and 2023, total world trade — goods and commercial services — increased almost fivefold.²

From 1981 to 2019, low- and middle-income economies increased their share in global exports from 19 to 29 per cent, and this contributed to reducing the share of their populations subsisting on less than US\$ 2.15 per day from 55 per cent to 10 per cent (see Figure 3). Trade can reduce poverty by increasing growth, and comprehensive trade-opening in developing economies increased on average economic growth by an average of 1.0 to 1.5 percentage points (Irwin, 2019). Economic growth, in turn, has been found to increase the real

income of the poor (Dollar, Kleineberg and Kraay, 2016). However, certain regions, such as sub-Saharan Africa, have encountered slower progress due to limited trade growth.

Growth is essential to reduce poverty. Although the causes of poverty are multi-dimensional, the strong growth in developing economies has been a significant driver for the reduction of the number of extreme poor. GDP growth helps to generate the resources needed to improve standards of living, health, education, and water safety, to provide housing and, very importantly, to invest in achieving the United Nations Sustainable Development Goals (SDGs).

Trade is a crucial engine for the growth that would contribute to ending extreme poverty by 2030, as per SDG 1. Trade can contribute to positive growth in a number of ways, such as by inducing a more efficient use of resources and by incentivizing innovation by facilitating access to technology available in the global market. It can also directly contribute to poverty reduction, for example by making more affordable goods available to poor households and opening up opportunities for poor farmers by improving their access to foreign markets. Trade can play a key role in empowering women in poor communities, given that exporting firms in developing economies tend to employ a significantly higher share of women than non-exporting firms, which can, in turn, affect other household decisions, such as education (World Bank and WTO, 2020).

Open trade also helps the poor because it is critical to economic security, given that it allows for diversification. For example, trade was central in responding to sharp fluctuations in demand — for example, for medical products — during the COVID-19 crisis and has helped economies highly dependent on products whose supply has been affected by the war in Ukraine to adapt by switching

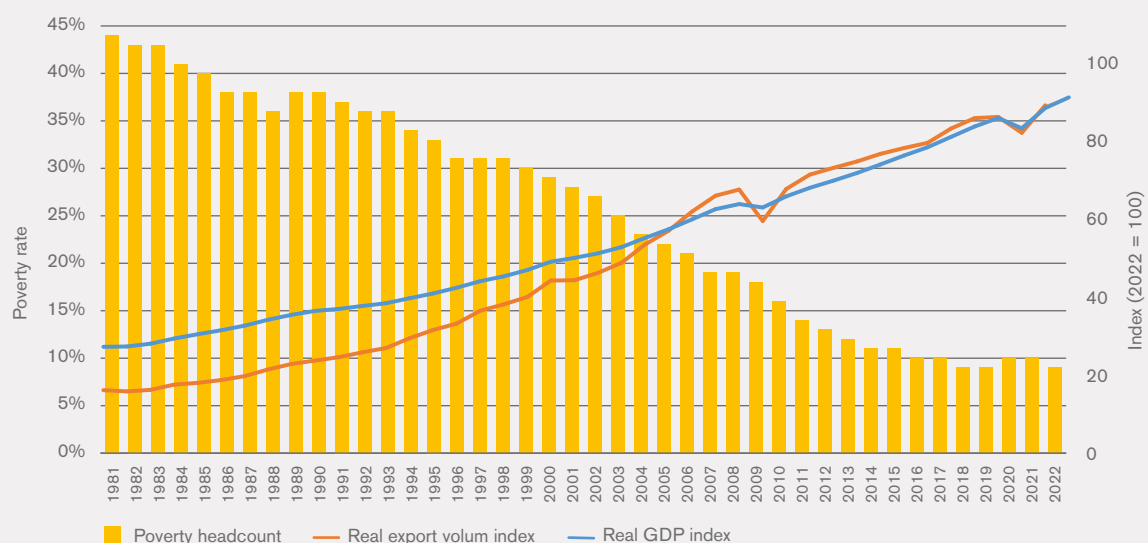
suppliers for the same product or replace products with substitutes and establish trading relationships with new partners (WTO, 2023a). While disruptions did occur in both instances, evidence suggests that less openness would have worsened the impacts. Despite this, not all economies have benefited equally. Export-led growth has reduced poverty in East Asia and parts of Eastern Europe, but the number of poor people in sub-Saharan Africa has stagnated since the 1990s. This slower poverty reduction in Africa in part reflects slower trade growth (WTO, 2023b).

The effects of trade on poverty are unequal and vary according to factors such as place (rural versus urban areas), skillsets, gender, type of trade policies applied and types of industry (e.g., formal or informal sector). And while trade reforms create new opportunities, they can also involve adjustment costs. For example, access to international markets may deliver higher average incomes to farmers specialized in producing export crops but may also

reduce labour demand in import-competing sectors by creating greater competition.

It is therefore important to put appropriate policies in place to ensure that the gains from trade are more evenly shared and that trade-related adjustment costs affecting certain regions and individuals are mitigated. In addition, more targeted action is needed to overcome the constraints preventing the extreme poor from benefitting from trade. For example, farmers and firms in rural areas face particularly high transport costs and delays when shipping to international and national markets; workers in informal firms typically do not have the same employment rights as those in formal employment; informal-sector firms and households tend not to be covered against risks by social benefits, such as health, pension or unemployment insurance, and have limited access to finance to smooth over short-term economic fluctuations, such as rising food prices or a contraction in economic growth.

Figure 3: International trade has contributed to extreme poverty reduction



Source: Authors calculations based on World Bank Development Indicators.

Fragmentation hinders global economic convergence and poverty reduction

The COVID-19 pandemic, the war in Ukraine and other recent crises have contributed to perceptions that globalization exposes economies to excessive risks and that, rather than enabling the construction

of a more secure, inclusive, and sustainable world, international trade is an obstacle. Thus, policymakers are tending to emphasize economic independence and decoupling – fragmentation – rather than economic interdependence.

Fragmentation can impact poverty and inequality through different channels, such as by altering international trade, investment patterns and

migration flows, as this can lead to lower or negative economic growth, limited access to global markets, and disruptions of global supply chains. Workers in export-dependent sectors are particularly affected by fragmentation-related labour market disruptions, and low-income households, which allocate a large proportion of their incomes to tradable goods and services, would face the burden of higher prices resulting from trade barriers (see WTO, 2023b).

Loosening existing trade relationships can also limit the policy space and financial resources available to governments to implement policies aimed at addressing inequalities.

WTO rules and flexibilities offer a means of poverty reduction

More needs to be done to ensure that the poor can benefit from trade. Total trade costs for poorer and developing economies are still relatively high, and lowering tariffs and other trade costs between economies could stimulate growth in economies with a high incidence of poverty and help to maximize trade opportunities for the poor. Further opening of trade in agriculture and in services, and continuing e-commerce negotiations at the WTO, could have significant potential benefits for growth, poverty reduction and inclusiveness. As discussed in WTO (2023b), re-globalization – the process of increasing global integration and cooperation – could help to make globalization more sustainable, resilient and inclusive.

Multilateral efforts to reduce barriers to trade, first under the General Agreement on Tariffs and Trade (GATT) and then the WTO, have had an important impact on growth, and therefore poverty reduction. Though unilateral and regional integration help to explain the growth of trade, multilateral integration has had a major role, and the two processes are often found to reinforce each other.

WTO commitments enhance good governance and the predictability of market access conditions, and this has an economic value beyond reforms in applied trade policies. Research estimates that economic growth increases by 2.5 per cent, on average, for at least five years after an economy's accession to the GATT/WTO, leading to a permanently higher output of about 20 per cent (Tang and Wei, 2009; Brotto, Jakubik and Piermartini, 2021). The increase of growth is greatest in those economies that initially have lower-quality institutions, indicating that WTO commitments can promote economic development by contributing to good governance. In addition, the WTO rule-based

system and its monitoring activities helped restrain protectionist responses during import surges (Jakubik and Piermartini, 2023).

The flexible nature of the WTO allows broad space for developing economies to tailor their commitments to their own policy priorities, including poverty reduction, although this needs to be weighed up against the benefits of making commitments that promote stability and predictability. WTO rules provide flexibility to help developing economies cope with the costs and risks involved in trade-opening. Special provisions for developing economies (referred to as special and differential treatment) include less-than-full reciprocity in market access negotiations, non-reciprocal preferences provided by more advanced economies, special flexibility to restrict imports and promote exports (including through subsidies under certain conditions), and provisions to address resource constraints, including via technical assistance and the possibility to implement commitments more slowly.

The WTO Trade Facilitation Agreement (TFA) includes a novel approach to flexibility that links technical assistance with self-determined implementation timelines on the part of developing economies.

In the WTO Agreement on Agriculture, policies to develop rural infrastructure, enhance investment in agricultural research, provide training and advisory services to farmers, and offer relief from natural disasters to farmers are all exempted from the monetary ceilings; they fall under agricultural subsidies designated in WTO terminology as “Green Box”, or permitted subsidies. While the Green Box applies to both developed and developing economies, developing economies are given special treatment in respect of stockholding policies for food security purposes, the provision of subsidized food to needy consumers, and various kinds of subsidies.

Finally, some WTO provisions allow exceptions for food security objectives, for example allowing WTO members to maintain temporary export restrictions (with due consideration for importing economies' food security and for potential coordination issues in the case of global shocks). In general, using exceptions to WTO rules must be weighed against the benefits of promoting stability and predictability.

The WTO also provides a range of institutional mechanisms that are specifically devoted to the concerns of developing economies. For example, among its other functions, the Committee on Trade and Development oversees the implementation of the WTO's trade-related technical assistance. The WTO leads the Aid for Trade initiative and has partnered with a range of other organizations on various trade capacity-building initiatives in developing economies,

such as the Standards and Trade Development Facility (STDF) and the Enhanced Integrated Framework (EIF). In July 2014, the WTO launched its Trade Facilitation Agreement Facility, to ensure that all members can access support to implement the TFA.

The WTO also provides information on the implementation of commitments by trading partners, including WTO schedules of commitments and notifications (e.g., notifications of subsidies, technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures) that many developing economies would find difficult and exceedingly costly to obtain on their own.

The WTO Trade Policy Review Mechanism (TPRM) provides regular reviews of each WTO member's practices in implementing commitments. This helps members to learn about other members' trade policies and to evaluate their own trade policies, including in terms of specific technical assistance needs. Finally, the WTO Dispute Settlement Mechanism contains a range of provisions that give special consideration to the concerns of developing economies and allow for special flexibilities in dispute settlement procedures, in light of possible resource constraints faced by these economies, including when it comes to implementing dispute settlement rulings. Developing economies can obtain legal assistance in dispute settlement proceedings via the WTO Secretariat or at the Advisory Centre on WTO Law (ACWL).

More open and predictable agriculture and services markets could reduce poverty

Opportunities for more inclusive gains from trade can also be provided by reducing trade costs in services, while progress in the WTO agriculture negotiations – such as in the areas of public stockholding for food security purposes, trade-distorting domestic support, notably for cotton, market access, and export restrictions on food products – would contribute to a more open, fair, predictable and resilient trading system, better food security, economic development and poverty reduction.

The pattern of growth across sectors matters for poverty reduction. In Sub-Saharan Africa, growth originating from the services sector seems to have induced a larger percentage reduction in poverty than growth originating from agriculture which itself has induced a larger reduction than growth in the manufacturing sector (World Bank, 2014). Evidence regarding the productivity-enhancing effects arising from services trade suggests that

opening up services trade can contribute to poverty alleviation (Fu, Wang and Yang, 2023; Nayyar, Hallward-Driemeier and Davies, 2021).

The poor are typically women, rural, small informal businesses and people living in conflict states (World Bank and WTO, 2015). More open and predictable services markets are key not only to fostering service-led development, but also to improving the participation of women and MSMEs in the economy, as MSMEs and businesses owned by women are principally active in the services sector, and further opportunities exist in that sector.

Much female employment has shifted into services in the last few decades (World Bank and WTO, 2020), but the trade costs in services are almost double those in goods.⁹ As a large share of these costs results from policy barriers, further opening up services markets to trade would offer potentially larger gains both for the economy as a whole and for women in particular (WTO, 2019a).

More open and predictable markets would make it easier for MSMEs already present in the services sector to expand internationally. For example, implementation of the disciplines on services domestic regulation, for which negotiations were successfully concluded in December 2021, and which aim to increase transparency, predictability, and efficiency of procedures for authorization of service providers aspiring to do business in foreign markets, could make it easier for MSMEs in the services sector to expand internationally, on the grounds that access to information and burdensome procedures weigh particularly heavily on MSMEs. Expanding the geographical scope of parties to these initiatives could significantly benefit MSMEs.

Agricultural trade policies are also pivotal in shaping the impact of globalization on poverty. Increasing jobs and wages in competitive agricultural export sectors could particularly benefit the poor by improving their employment prospects and income levels. Agriculture trade directly impacts the poor by influencing the prices and availability of the goods they consume. Changes in trade policies can thus affect the affordability of essential food items for low-income households, ultimately leading to an improvement in food security for the poor. Simulations for Brazil show that agricultural trade reforms would alleviate poverty through increased employment opportunities and higher wages within the agricultural sector (de Souza Ferreira Filho, 2009).

The WTO Agreement on Fisheries Subsidies has a crucial role to play in poverty reduction by preserving fish stocks and thereby benefitting fishing communities, particularly in poorer regions

and economies where fishing constitutes a substantial portion of the economy. Da-Rocha et al. (2017), for example, provides evidence that a reduction in fisheries subsidies positively affects fish stocks, leading to improved productivity.

Increasing opportunities for the poor to gain from the digital transformation

Digital trade allows direct access to international global goods and services markets. Thus, the digitalization of trade could provide new opportunities for people and economies that have so far been left behind by trade, by enabling them to overcome barriers to trade such as transportation costs and institutional disadvantages (as, for example, users' reviews may make up for lack of trust in rule of law). It could also provide new opportunities for small firms, people living in remote areas, and women in developing economies.

To the extent that the poor are women, live in rural (typically remote) areas and work in small businesses (World Bank and WTO, 2018), digital transformation and digital trade in particular may provide new opportunities.

Online markets present several advantages for MSMEs compared to offline markets, although they do also involve some challenges. First, online trade significantly reduces trade costs, for example those associated with acquiring information about the suppliers of a certain product. This can disproportionately benefit MSMEs, as such trade costs are typically fixed costs, and are therefore particularly burdensome for MSMEs. Second, online markets are less capital-intensive, as it is not necessary for companies selling online to invest in opening a bricks-and-mortar shop. This lesser need for capital is helpful for MSMEs, especially in developing economies, where financial markets may be less efficient. Third, product lines in which MSMEs are predominantly present, such as gifts and craftwork, attract a greater share of total demand in online than in offline trade (WTO, 2018b). Fourth, with the development of online platforms and payment systems, even smaller firms can participate in international trade directly, without having to go through large wholesalers and retailers as intermediaries to export.

There is some empirical evidence to suggest that women benefit from digital trade. E-commerce platforms, online work platforms and online payments are especially empowering to women's participation in trade, as they help to address time, financial and

mobility constraints. E-commerce enables women to reach a much vaster market than they could offline. In addition, digital solutions remove the need for face-to-face interactions, thus allowing more women to overcome traditionally male-dominant trade networks. Technology-enabled crowdfunding platforms can also help women to access trade finance (World Bank and WTO, 2020).

But the poor risk being left further behind if the specific constraints to benefitting from digital trade are not taken into account. Access to digital infrastructure varies widely from one economy to another, as do skills and technical know-how. Although the digital divide is diminishing in certain regards, with nearly two-thirds of the world's population using the internet in 2022, digital divide remains large across economies and between women and men. (ITU, 2022).

Certain economies are better positioned than others to capitalize on the opportunities and tackle the challenges of digital trade, underscoring the critical role of digital infrastructure and skills. Broadly speaking, for consumers and businesses to participate in and gain from digital trade, they need access to high-speed, affordable, and dependable digital infrastructure, as well as the skills and capabilities to effectively use digital technologies for productive purposes. Currently, around 5.4 billion people, representing 67 percent of the global population, have internet access, which is twice the number connected a decade ago. However, 2.6 billion individuals, or one-third of the world's population, are still offline, with the majority residing in low- and lower-middle-income economies (IMF, OECD, UNCTAD, World Bank and WTO, 2023). High tariffs on imports of information and communications technology (ICT) equipment, restrictions on imports of enabling services and limited competition in telecommunications services can reduce affordability and slow down the adoption of these technologies.

In addition to ensure adequate digital infrastructures, governments must establish a regulatory and policy framework that supports digital trade. This regulatory environment may include policies covering aspects like data privacy, consumer protection, cybersecurity or competition (IMF, OECD, UNCTAD, World Bank and WTO, 2023). Estimates suggest that improved digital connectivity is twice as effective at lowering trade costs in middle- and low-income economies when coupled with an enabling regulatory environment for digitally delivered services (Bellucci, Rubinova and Piermartini, 2023). In this context, the ongoing negotiations at the WTO on e-commerce are of key importance. The work under the Work Programme on Electronic Commerce

and the Joint Initiative on E-commerce, also offers opportunities for lower-income economies to benchmark and strengthen their regulatory frameworks (World Bank and WTO, 2023).

Bridging the digital divide and enhancing the preparedness of developing economies for digital trade necessitates both domestic and international collaboration. Increased international financial and technical assistance is essential to help developing nations boost connectivity, develop skills, and implement regulations pertinent to digital trade. Programs such as the WTO-led Aid for Trade, the UNCTAD-led eTrade for All, and the World Bank-led Digital Advisory and Trade Assistance (DATA) Fund can provide valuable support. Digital connectivity is a key focus area in the WTO Aid for Trade work programme for 2023-24, with recent commitments to the ICT sector amounting to US\$ 2.16 billion in 2021-22. (IMF, OECD, UNCTAD, World Bank, WTO, 2023).

Policies targeting the specific challenges faced by the poor are necessary

To maximize benefits to the poor, trade integration has to be complemented by policies targeting the specific challenges faced by the poor. The extremely poor suffer from a range of constraints that limit their capacity to benefit from the gains that others in society might enjoy from trade. For example, farmers in remote areas face high transport costs and delays when transporting goods to both national and international markets. Production in rural areas is largely dominated by agriculture, and agricultural markets continue to present high trade costs trade integration. In conflict states, where most of the poor resides, ensuring that natural resources are traded through formal channels and appropriately using export revenues to diversify economic structure is critical to stability.

International cooperation in the form of regional trade agreements (RTAs) can help to reduce poverty, and a growing number of RTAs acknowledge the need to alleviate poverty or set poverty eradication as one of their objectives.⁴ Several agreements also identify poverty alleviation as a cooperation area.⁵ Only a small number of RTAs make a direct reference to addressing inequality,⁶ in most cases regional inequality.⁷ In parallel, an increasing number of RTAs include provisions that explicitly relate to some of the dimensions of inclusiveness, including human rights, labour rights, gender equality and the economic participation of MSMEs. At the WTO, the Informal Working Group on Trade and Gender established in 2020 and the Informal Working Group on MSMEs launched in 2017 are two examples of initiatives aiming at considering inclusiveness issues in trade.