TRADE, DEVELOPMENT AND POVERTY REDUCTION

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Step back and take a view over the last 20 years of trade, development and poverty reduction.

1. Relevance of trade for poverty reduction
2. Challenge and key issues ahead
3. Some ideas on what next

The trade context: Developing country participation in global trade has increased dramatically

- **Share of world trade:** Since 2000 alone, the developing country share of world trade increased from 33 per cent to 48 per cent.
- **Leading trade economies**: China is now the world's largest exporter, with a number of other developing countries in the top twenty exporters, including Mexico, India, Brazil, Thailand, Malaysia and Indonesia.
- **South-south trade**: Developing country growth offering new markets for other developing countries: South-South trade has increased from 8 per cent of world trade in 1990 to around 25 per cent in 2014.
- **Institutional participation** has grown: 36 accessions since 1995 – and 36 LDCs now WTO Members – and developing countries key players in G20 and other groupings

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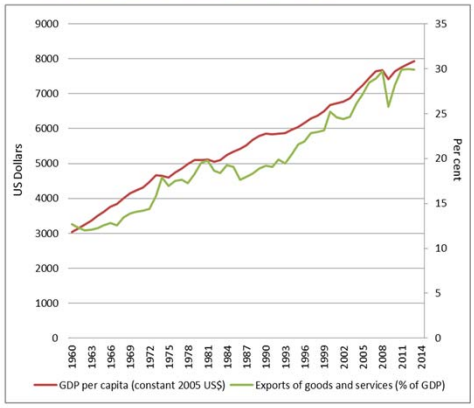
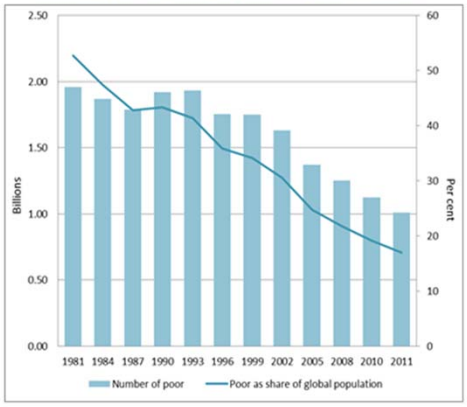
The trade context: Developing country participation in global trade has been central to declining poverty

No country has experienced sustained growth and significant reduction in poverty without integrating into the global economy.

GDP per capita and world exports, 1960-2014



Billions of extreme poor and share of world population



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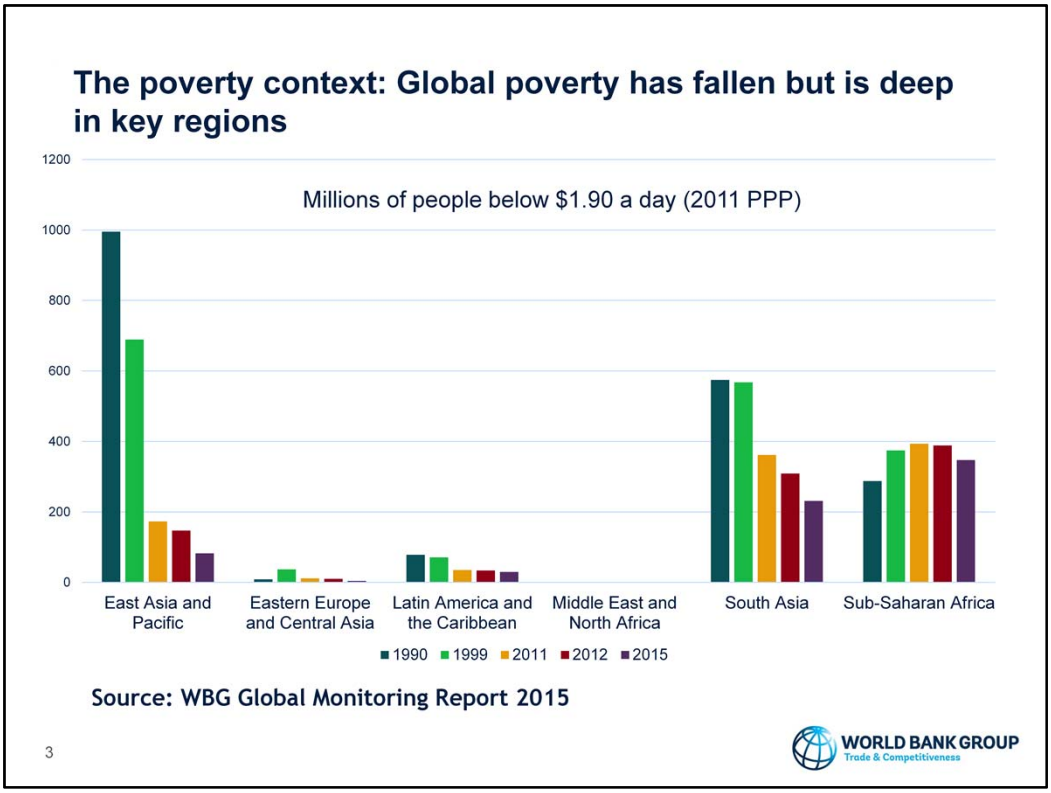
This slide brings the poverty picture and the trade picture together - recent decades have seen a striking increase in the level of integration into the global economy (as shown in the left hand chart). Exports as a proportion of global GDP have almost tripled since 1960.

The inclusion of developing countries in this process of global integration has contributed to dramatic declines in poverty (see in the right hand chart on poverty declines)

Source: World Development Indicators, Povcalnet (poverty numbers based on 2014 estimates)



The global poverty context: extreme poverty has fallen from just below 2 billion to around 700 million people today. Overall this is a remarkable achievement – but the challenge ahead is clear, especially in South Asia and Africa.

Most LDCs are in Africa – so the challenge of ending poverty in Africa clearly means understanding the challenges LDCs face and trying to tackle them.

A key question in this: what role has trade had in reducing poverty to date? What has been different, say, in EAP compared with SSA?

In other words – why have some LDCs been better able to take advantage of trade to reduce poverty than others?

Why is trade so important for poverty reduction?

But, openness to trade does not automatically lead to poverty reduction - and the extreme poor face constraints in benefiting from trade opportunities

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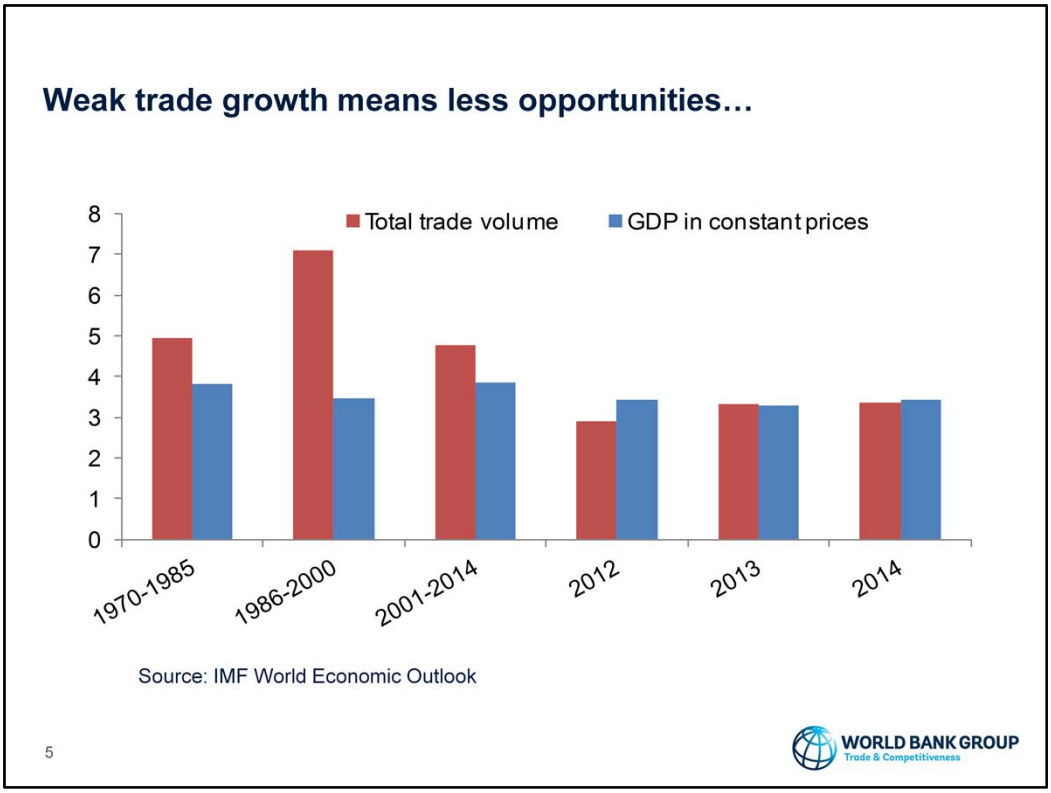
Many channels through which trade can contribute to poverty reduction. Trade creates opportunities to contribute to many of the issues here – but the process isn't automatic.

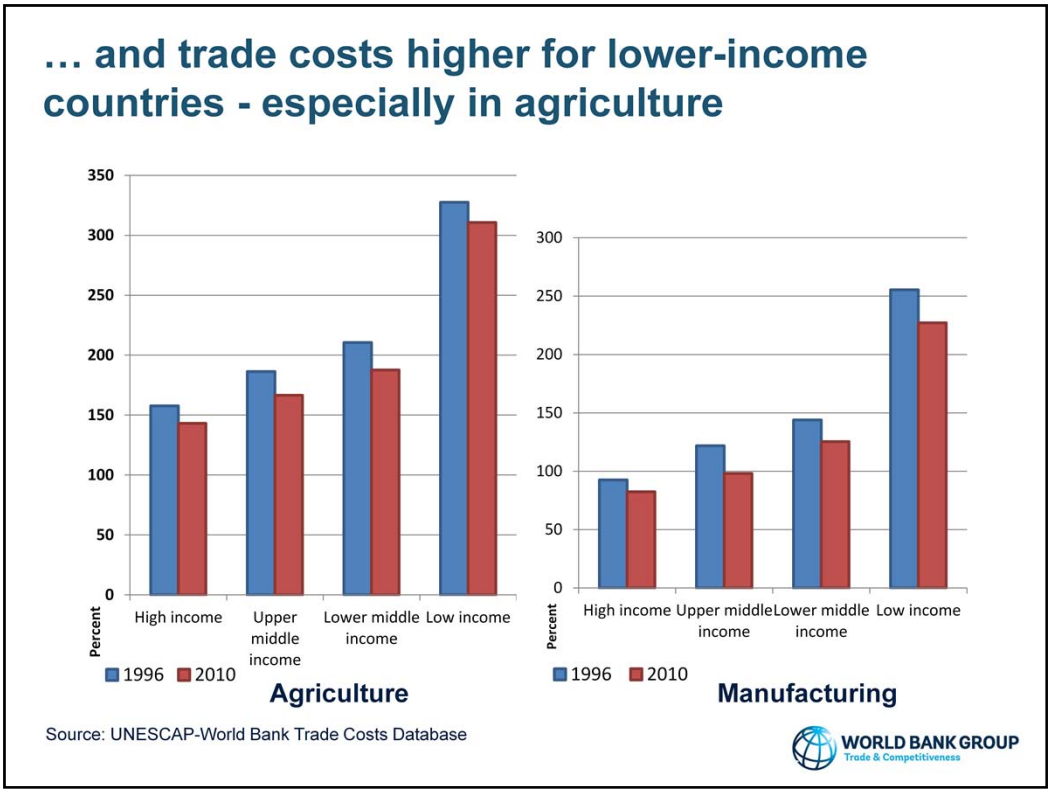
Next slides – challenges faced in maximizing the potential impact of trade on poverty reduction.



First- the global trade context is concerning.

Post-crisis global trade slowdown: after growing 7.1 percent on average between 1987 and 2007, trade growth is now level with GDP growth [see next slide]

Falling commodity prices, mainly in energy but also non-energy commodities reinforcing need for economic diversification.



Trade costs also remain high in absolute terms – there is still a lot of room to integrate developing countries into the trading system.

On average, trade costs in manufacturing in high income countries for the manufacturing sector were 82%, compared with 98% in the upper middle income group, 125% in the lower middle income group, and 227% in the low income group. These numbers make clear that it is by far the low income group that is the most marginalized in world trade: on average, trade costs there are close to three times as high as in the most developed countries

Agriculture costs are clearly higher – especially for low-income countries.

The level of agricultural trade costs in low-income countries is especially concerning because of the importance of agriculture to poverty reduction. (for example 75% of the extreme poor in Africa live in rural areas)

-. In this case, the low income countries are becoming even more marginalized from international agricultural markets: in 1996, their trade costs were 108% higher than those of the high income countries, whereas in 2010 the difference was 117%.

Why are they higher?

-Hard to get empirical analysis because of a lack of data on agricultural trade barriers – but policy barriers to trade in agriculture are certainly part of this: a wide range of

NTMs. Also infrastructure.

-Also, agriculture has characteristics that entail higher costs – and the impact of the same drivers of cost in manufacturing can be more pronounced in agriculture (e.g. the impact of delays on perishable products)

Four characteristics of extreme poverty that present challenges to benefiting from trade

1. Rural poverty

Distorted international markets and high trade costs

High internal trade costs, with gains of openness often passing to intermediaries (e.g. transport operators)

2. Informality

Risks for informal sector workers or self-employed higher than those in the formal sector

Less access to finance; no or limited social protection; lower productivity

3. Fragility and conflict

Weak institutions mean trade can exacerbate conflict (e.g. Great Lakes)

Trade diversification essential for providing alternative economic pathways away from conflict

4. Gender inequality

Legal and cultural biases can reduce returns for women traders, or lock them out from markets entirely

Discrimination at borders

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Constraints that make it more difficult to benefit from trade opportunities – but also mean that the gains are potentially great if they are tackled as a central part of trade integration strategies

Rural poverty: China, Cambodia stories. In China rural poverty fell from 76% in 1980 to 12% in 2001.

-Impact on both consumer and producer prices through trade integration is limited by internal transport costs

-Also – information costs; input costs; risk; social marginalization

Fragility and conflict: border closures + loss of domestic connectivity reduce or cut imports → consumer prices go up. Also cuts access to imported inputs.

-Weak institutions mean trade can exacerbate conflict if not properly managed: conflict minerals in the Great Lakes. Providing alternative livelihoods, trade diversification essential.

Informality: large informal sector driven by high cost of formality

-Most research looks at whether trade pushes people to informal sector: doesn't look at how being there in the first place affects benefits from trade opportunities

-Those in the informal sector face risks above those in formal sector, and find it more

difficult to gain from trade opportunities

-Less access to finance; no/limited social protection; lower productivity

Women: exporting firms generally employ a higher share of women than non-exporting firms

-Examples of relative wage increases for women through trade (e.g. garments)

Trade and the SDGs

DATA

Better data on trade and links with sustainable development issues (e.g. participation of women)

FINANCING

AfT relevant to ODA, domestic resource mobilization, and private flows

IMPLEMENTATION

Specific trade-related goals/targets
AND
Trade's role in achieving other goals

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What next?

1. We still need to do more to restore trade growth – and lower trade costs **between** countries. Tariffs, non-tariff barriers, trade facilitation, services, regional and global integration.
2. Deepen the poverty impact of integration policies – role both for trade policy and complementary reforms ("Trade and…" interventions). Agenda largely **within** countries.
3. Understand and manage the **risks** poor people face in responding to trade opportunities.
4. Improve the **enabling environment** in conjunction with trade reforms.
5. Better **data –** and more effort to combine different data sources to inform policy.

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Blend of cross-cutting, economy-wide reforms and large-scale interventions with more targeted approaches.

Example of looking at complementary reforms: Reforms to increase competition among logistics providers could reduce the cost of transporting staples in West Africa by 50 per cent within 10 years

Draft Myanmar DTIS Poverty chapter as an example in the region of a poverty focus to trade policy: some of the findings match the framework in the report (e.g. domestic market integration as important as regional/global integration for the poor).

Great Lakes Trade Facilitation Project as an example of an approach that lowers trade costs between countries, in a way that focuses on the constraints faced by the extreme poor in a fragile region. Through a $130 million initiative we are working with DRC, Rwanda, Uganda, Tanzania and Zambia to facilitate trade, with a focus on small-scale cross border traders, most of whom are women and who live in remote, rural areas. This kind of intervention is likely to have a high impact on poverty.

Thank you

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