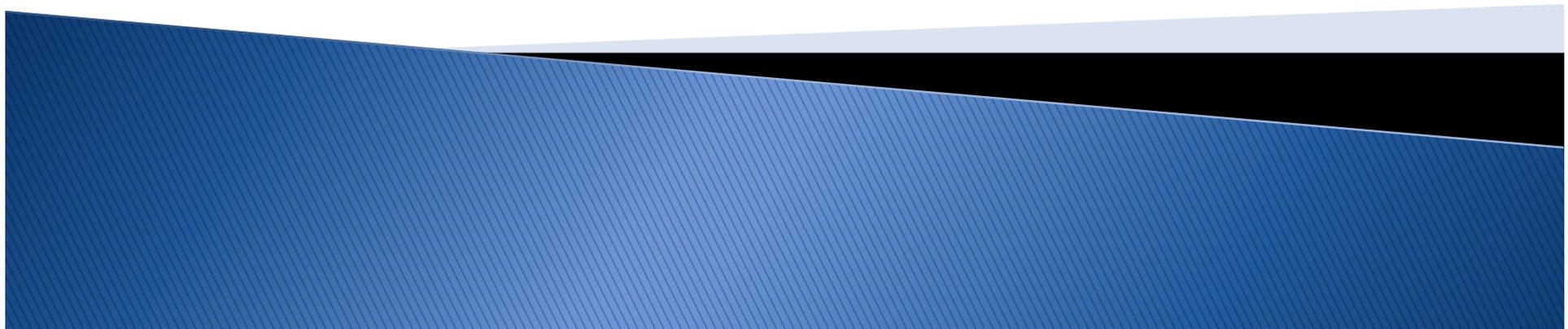


Trade, Rural Poverty & Gender Inequality

Will Martin

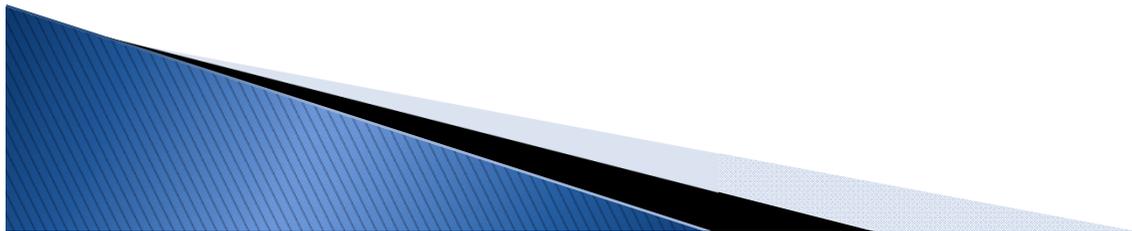
WTO/World Bank Trade & Poverty Forum

26 May 2016

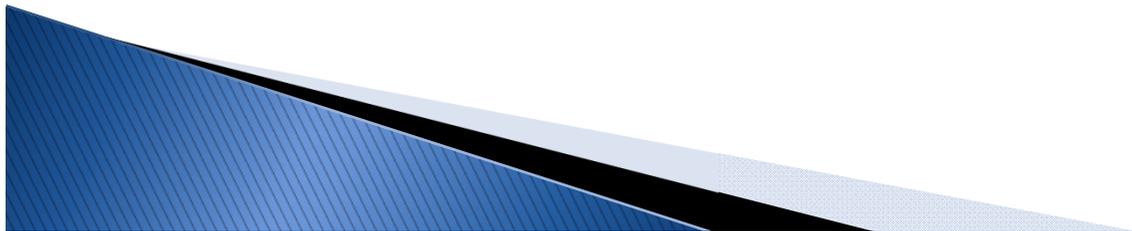


Context

- ▶ Trade challenges for the rural poor
- ▶ High-impact interventions
- ▶ Gender inequality & trade



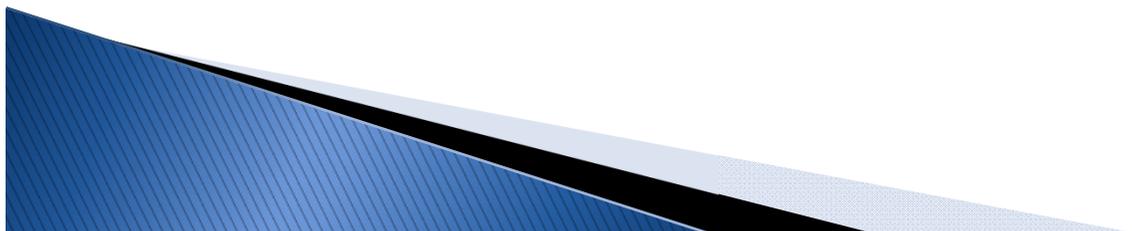
Trade challenges for the rural poor



Three quarters of the poor are rural

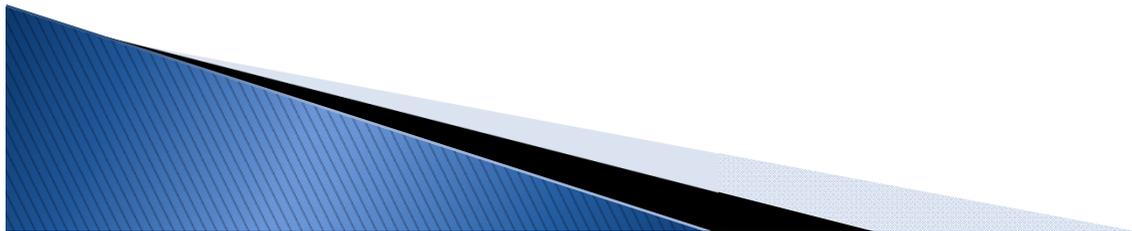
And poverty rates are much higher in rural areas %

	Rural	Urban
Bolivia	15.2	2.8
China	13	0.4
India	25	13.4
Indonesia	11	9
Nicaragua	25	11
Global	18	11



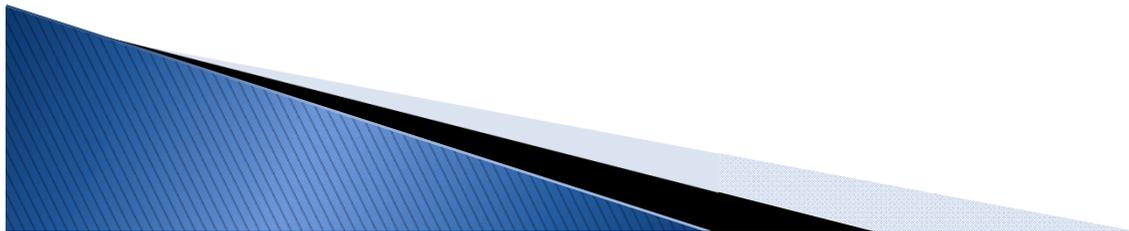
Rural poverty & food insecurity

- ▶ Limited skills
- ▶ Low-productivity technology
- ▶ Slow adjustment
- ▶ Remoteness & trade costs
 - Low prices for goods sold
 - High prices for inputs & consumer goods
- ▶ Trade barriers
 - Low prices for goods sold
 - High prices for inputs & consumer goods



Rural poor often vulnerable

- ▶ Large share of income spent on food
 - Vulnerable to high food prices
- ▶ Farm output often volatile
 - Makes income volatile
- ▶ Vulnerable to many other shocks
 - eg health, loss of assets

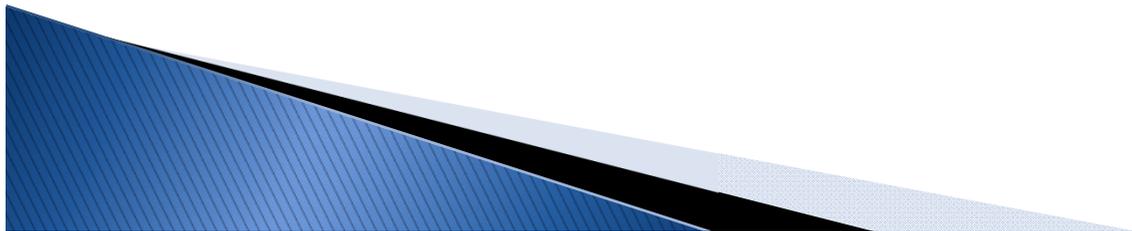


Huge changes in world agri trade

1992			
<i>From</i>	High	Developing	Total
High-Income	39	20	59
Developing	28	12	41
Total	67	33	100
2013			
High-Income	20	23	42
Developing	24	34	58
Total	44	56	100

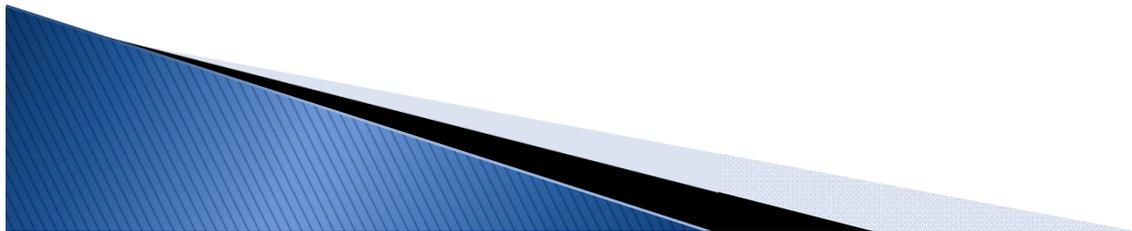


High-impact interventions



Two broad types of intervention

- ▶ Interventions to raise real incomes
- ▶ Interventions to deal with volatility



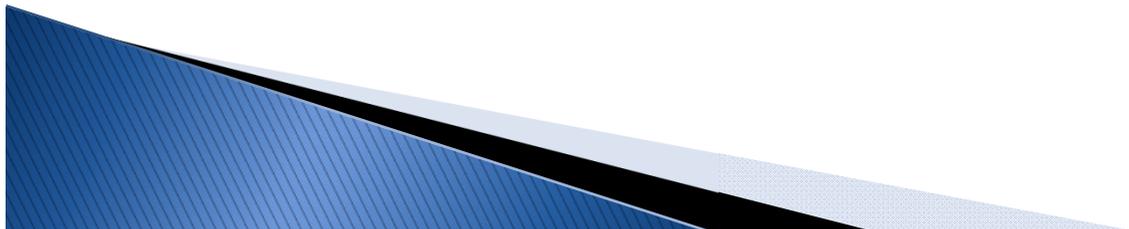
Interventions to raise incomes

- ▶ Skill upgrading
 - Rural education
- ▶ Improving technology
 - Research & development
- ▶ Accelerating adjustment
 - Off-farm employment opportunities
- ▶ Improving infrastructure
- ▶ Reduce barriers to trade
 - Raise returns from goods and services sold
 - Lower the costs of inputs and consumption goods

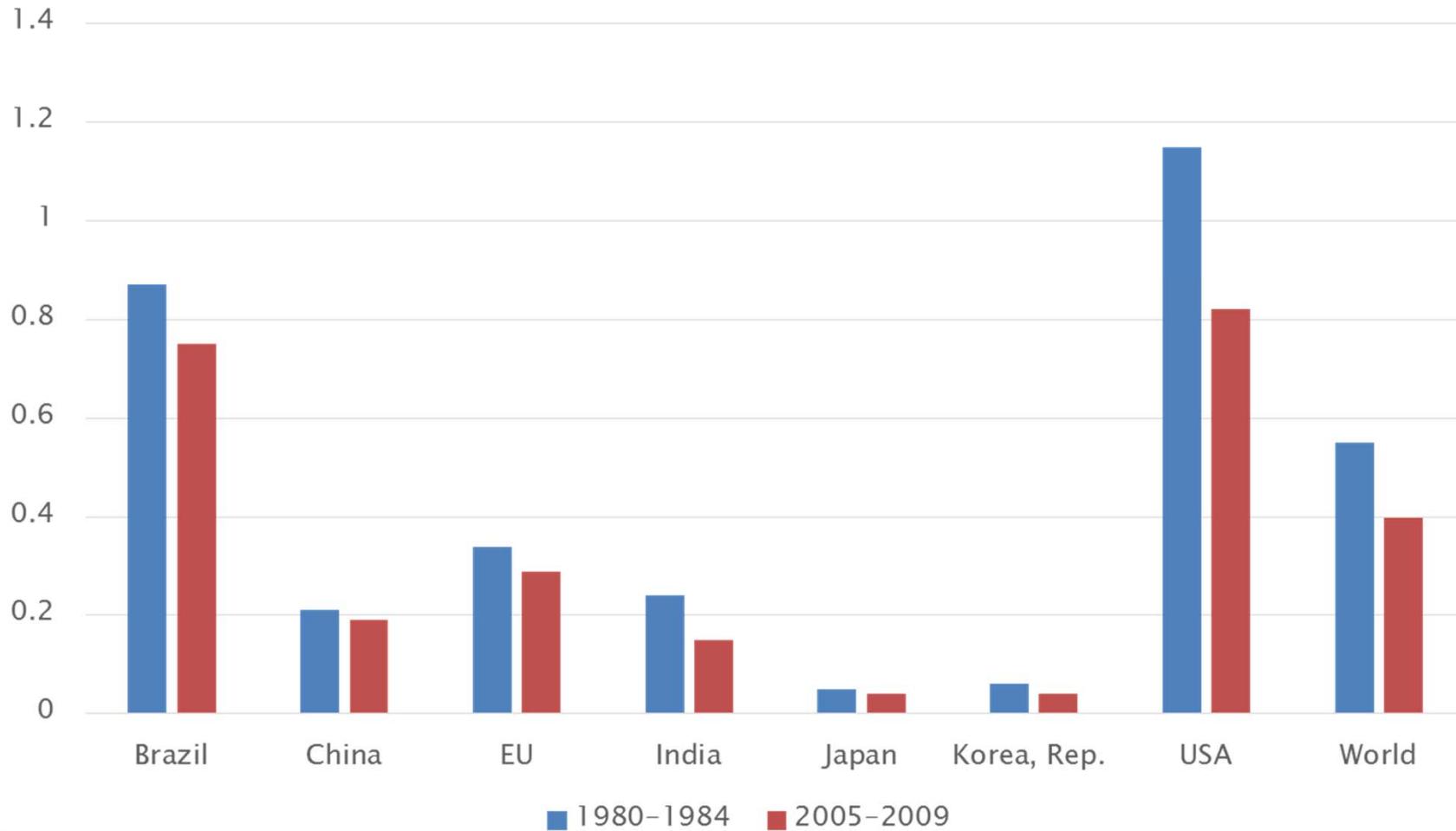


Why does trade raise incomes?

- ▶ Factor endowment
 - eg countries with a lot of land are natural exporters
 - countries with little land tend to be importers
- ▶ Countries with better technology tend to export
 - Perhaps because of better agroecological conditions?
 - Or innovative ways to produce?
- ▶ Productivity changes from trade
 - Trade often allows use of better inputs
- ▶ Greater variety of inputs & products
 - Raises productivity & benefits consumers
 - Dietary diversity



Huge differences in agric land/capita

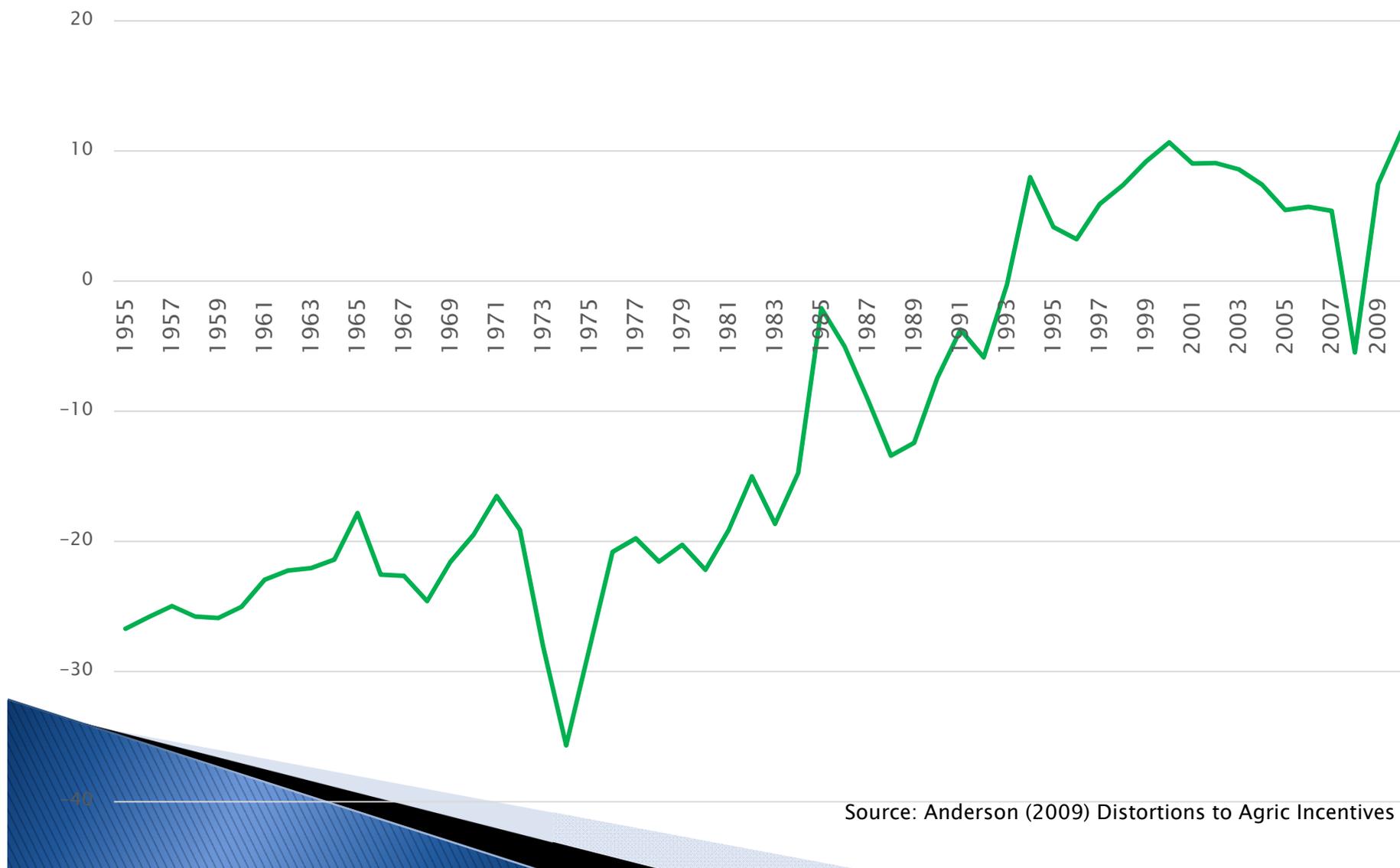


What about protection policy?

- ▶ Can raise the incomes of favored groups
- ▶ But does so at the expense of consumers
 - Protecting food hurts the poor
- ▶ Gains from protection offset by the higher cost of producing protected goods
- ▶ And depending on protection also involves huge uncertainty



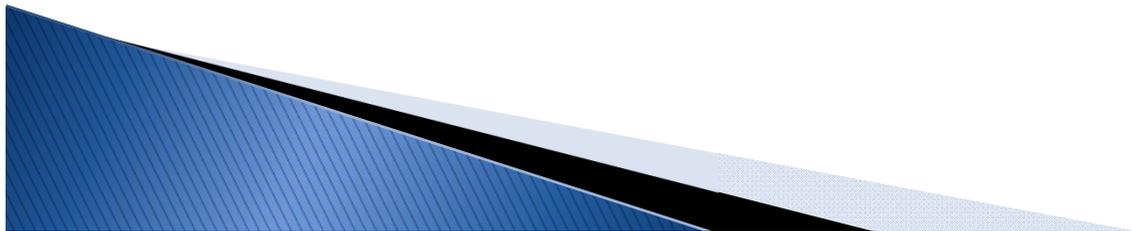
Nominal Rate of Assistance to Agriculture Developing Ctries, %



Source: Anderson (2009) Distortions to Agric Incentives

Managing volatility

- ▶ Social safety nets
- ▶ Opening to trade
- ▶ Price insulation and safeguards
- ▶ Stockholding



Social safety nets

- ▶ Policies such as social safety nets are individually and collectively effective
 - There is an income effect that adds to price volatility
 - but the increase in demand by the poor is offset by a decline in demand from the rich
- ▶ Domestic food aid exempt from WTO disciplines
 - Consistent with both mercantilist & economic logic
- ▶ Insulating policies cause substitution towards food by all consumers
 - The combination of substitution and income effects creates an ineffectiveness problem



Trade opening diversifies supply

- ▶ Widely-held perspective that opening up to trade increases price instability, but
 - Supply the most common source of volatility
 - Production in an integrated market much less volatile than in individual markets
 - Output variance falls by a factor of 7 for rice and 14 for wheat
- ▶ Burgess & Donaldson found connecting to the rail network greatly reduced famine risk in India

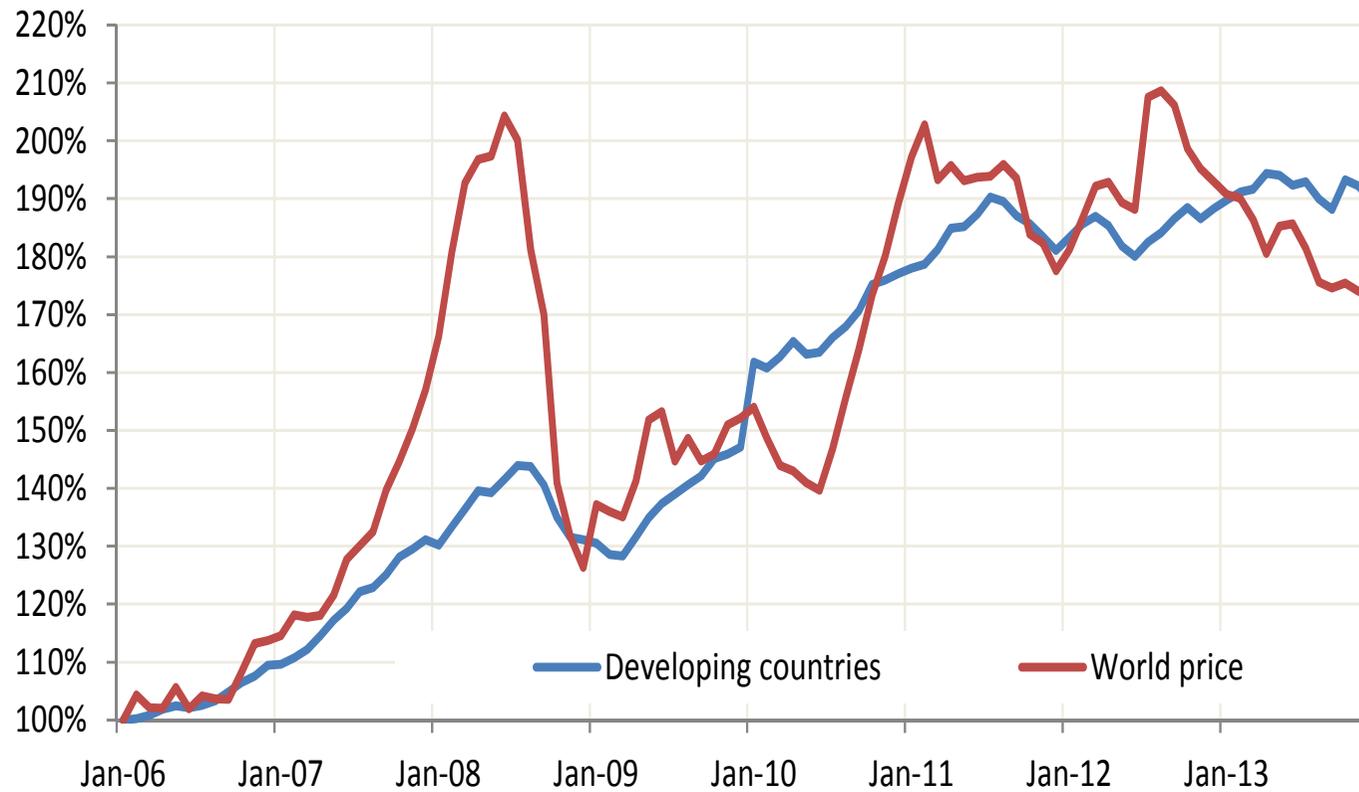


Price insulation

- ▶ Attractive to individual countries
- ▶ As the price falls, importers raise protection
 - Exporters lower export taxes or raise export subsidies
 - eg the traditional CAP variable levies
- ▶ Stabilizes prices relative to world prices
 - But destabilizes world prices
- ▶ Collectively, this policy is ineffective
 - Reduces volatility for countries insulating more than average
 - Increases volatility for those who insulate less
 - Does not reduce volatility



Price insulation for staples



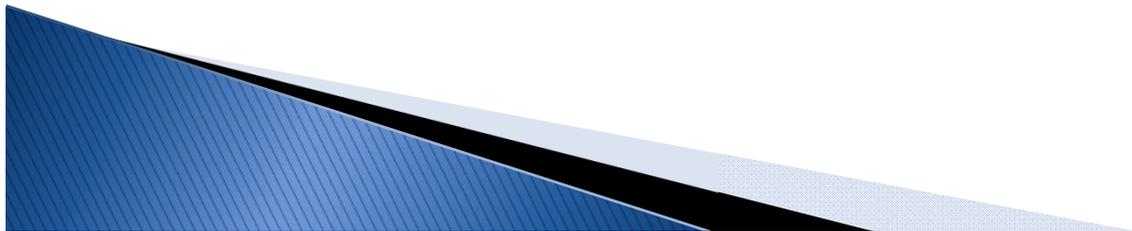
Disciplines on insulating policies

- ▶ Needed to reduce the collective action problem
 - What seems good for one ctry may be collectively bad
 - Tariffs create collective action problems with income levels
 - Insulation creates collective action problems in volatility
- ▶ Some precedents in WTO
 - Doha agenda banned Variable Import Levies
 - Price-based SSM proposal would involve a discipline on the duties used to offset falls in world prices
 - Doha proposals allow 85% insulation- very destabilizing
- ▶ Some discipline on exports likely important



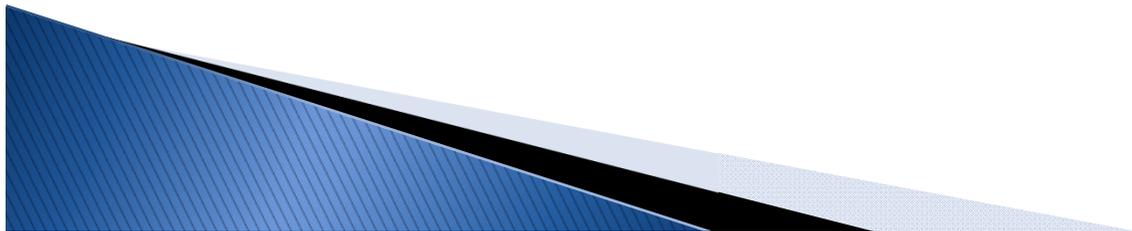
Quantity-based SSM

- ▶ Very cumbersome to use
 - Only applied when price SSM not available
- ▶ In rich countries, might compensate farmers
 - Output has declined, but the safeguard raises prices
- ▶ But poor farmers in poor countries are frequently net buyers of the food
 - And bigger-than-usual buyers if output has fallen
 - Crop shortfall plus SSM a double shock for farmers
 - Markets destabilized & poverty rises

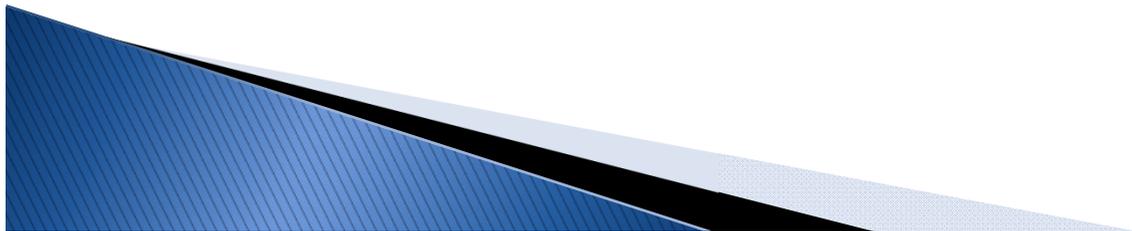


Stockholding

- ▶ Extremely difficult to manage
 - Hard to predict price trends
 - How much to accumulate, when to sell?
 - Risk of accumulating unmanageable stocks
- ▶ Requires use of complementary trade policies
 - Which can frequently achieve all the goals
- ▶ Frequently ends up destabilizing the market

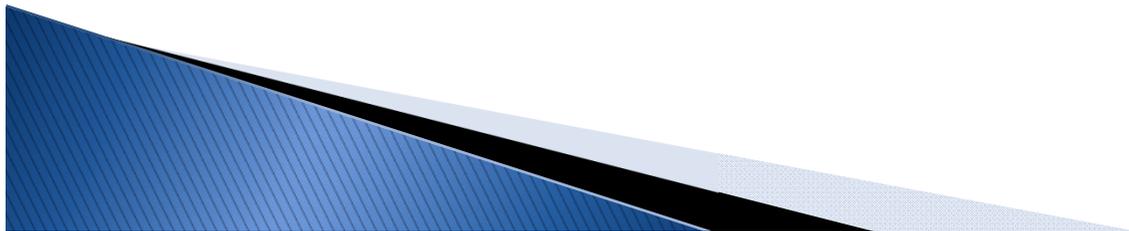


Gender inequality & trade



Poor women in rural areas

- ▶ Are hugely important in agriculture
 - Do close to half the work in African agriculture
- ▶ Particularly disadvantaged in
 - Education
 - Security of land tenure
- ▶ Need action on these issues
 - Improve education for girls
 - Land titles that include women



Conclusions

- ▶ Poverty problems intense in rural areas of developing countries
 - Sustained low incomes
 - And high vulnerability
 - Most developing ctry ag trade now with other developing ctries
- ▶ Trade reform not the complete answer, but
 - Can raise incomes
 - And lower volatility
- ▶ Poverty problems particularly intense for women
 - Need targeted policies
 - Trade provides important opportunities



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