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 %

<table>
<thead>
<tr>
<th>Country</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>15.2</td>
<td>2.8</td>
</tr>
<tr>
<td>China</td>
<td>13</td>
<td>0.4</td>
</tr>
<tr>
<td>India</td>
<td>25</td>
<td>13.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>Global</td>
<td>18</td>
<td>11</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Developing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-Income</td>
<td>39</td>
<td>20</td>
</tr>
<tr>
<td>Developing</td>
<td>28</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>33</td>
</tr>
</tbody>
</table>
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 Countries, %

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
Some References


