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CLOSING REMARKS

JOINT WORLD TRADE ORGANIZATION/WORLD BANK GROUP TRADE AND POVERTY FORUM

"CONNECTING TO TRADE: POLICIES AND PROGRAMMES FOR MAXIMIZING POVERTY REDUCTION IMPACT" IN COLLABORATION WITH THE WTO CHAIRS PROGRAMME

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It's good at the end of a day of ideas and discussion to have the opportunity to wrap-up and think about what next for Aid for Trade and for trade policy.

This is certainly a topic we have been thinking about in detail at the World Bank Group.

We see an agenda on this covering five broad areas. I mentioned two of these this morning in my opening remarks but would like to touch on each of them in a little more detail now.

The five areas are:

- Lowering trade costs between countries
- Intensifying the poverty impact of trade integration
- Improving the enabling environment
- Understanding and managing the risks faced by the extreme poor
- Making better use of data to build the evidence base for reforms and target policies effectively.

I would like to provide some more detail on each of these five areas.

First, **we still need to do more to lower trade costs between countries**. The integration of developing countries into international trade has been central to poverty reduction so far – and that we need to do more if we are to achieve the end of poverty by 2030.

This will involve an intensive effort to further lower trade costs for developing countries. Low-income countries as a group still face trade costs that are around three times higher than advanced economies. These high trade costs mean that firms that might otherwise trade and invest in these countries, with a population totaling more than 600 million people, go elsewhere – and it means that firms in these countries risk being cut off from regional and global markets.

When we look at a range of indicators from the Logistics Performance Index, the Doing Business reports, we see that trade in and out of developing countries faces consistently higher costs than in advanced economies.

Lowering these costs is the central objective of our trade-related projects. We currently have more than $13 billion in trade-related projects around the world, focused on integrating developing countries more effectively into the international economy.

These activities are based on country-level assessments of the key trade constraints facing firms in that country. However, some areas of particular focus for us in reducing poverty through trade include:

- addressing barriers to agriculture trade, given three-quarters of the world's extreme poor live in rural areas;
- Connecting developing countries to global value chains, and maximizing the positive spill-overs from this in terms of employment and income generation for the poor;
- Trade facilitation, which is essential for all trade but has particular important for the two issues I just mentioned – agricultural trade and global value chain trade.

Along with country and regional projects and reforms, there is also an ongoing need for trade negotiations as a way of integrating developing countries into the global economy.

The WTO is critical. Delivering results at the multilateral level ensures that all countries experience. This can be complemented by regional initiatives that lower trade costs in ways that might not yet be possible in the WTO.

The second priority is that we need to deepen the poverty impact of integration policies. This means looking both at trade policy and complementary reforms – many of which we might not think of as being relevant to trade.

The starting point here is strong analysis of the linkages between trade and poverty at the country level. We are working to develop a new analytical framework to identify the most relevant trade-related costs affecting the extreme poor. The data and monitoring agenda is of great importance here, as we heard in the previous session, and I will come back to this.

Once we have a strong understanding of the economic activities of the extreme poor and how they do – or do not – connect to trade, we need to understand what costs they face in participating in trade more effectively. Based on this we can help the government develop and implement a policy agenda to address these costs.

This can be about lowering traditional trade barriers - both on the import and export side. For example, people living in poor rural areas often lack access to imported inputs because of a range of import barriers on materials like seeds and fertilizers. Inefficient testing systems for these inputs raises the cost beyond what a poor farmer can afford, limiting potential increases in productivity that could allow that farmer to earn increased export revenue.

It could also be about a sub-national agenda on trade facilitation, which seeks to better connect lagging regions to key gateways. It might also involve complementing a focus on trade facilitation at major ports or land crossings to border regions where the extreme poor are concentrated.

It might also be about promoting competition in markets vital for the poor where lack of competition reduces their gains from trade: for example, agricultural inputs; or transport and distribution.

The list could go on – but the idea is that a mix of trade and complementary actions is likely to be needed at the country level to intensify the positive impact of integrating into trade on the extreme poor.

The mix of actions in these different areas will depend on the circumstances in each country. In some areas the reforms and development interventions could also be across borders – for example, in many African countries small-scale cross border trade in goods and services is an essential source of income for people living in extreme poverty, so facilitating this trade will be especially important for poverty reduction.

Third, we need to improve the enabling environment in conjunction with trade reforms, with a focus on issues most relevant to the participation of the extreme poor in international trade.

One of the important areas for action is supporting the formalization of economic activity. Most people living in extreme poverty work in the informal sector, and in many countries where the extreme poor are concentrated, the informal sector can account for the majority of the economy.

Constraints in the overall business environment that create an incentive for informal, rather than formal, economic activity need to be addressed. Such constraints include high rates of taxation, regulatory burdens, limited access to finance, barriers to competition, and corruption.

Efforts to address these constraints, coupled with targeted support for small firms, can help foster an environment where small firms are more able to participate in trade. But at the same time, the sheer size of the informal sector and the number of micro and small enterprises involved means it is important to remain realistic about the impact of programs that only provide direct support to such firms. This kind of support needs to be complemented by reform to address economy-wide constraints.

And finally, cross-cutting investments in human capital – notably good nutrition, education and health – are important long-run determinants of labour productivity and competitiveness.

Fourth, we need to understand and manage the risks poor people face in responding to trade opportunities.

This starts with new analytical approaches. The top-down methods normally used in trade and poverty analysis do not identify risks that confront the poor and limit their ability to interact with markets.

For example, subsistence farmers' low capacity to manage the risks they face exacerbates the constraints of low income and savings. It prevents them from investing in new technologies, such as seeds and fertilisers, that are made more available and at cheaper prices through trade.

To take another, related example, recent work in East Africa has highlighted the prevalence of counterfeit seed varieties. The risk that farmers may lose what little savings they have in seeds that are meant to result in higher-yielding export crops could prevent many from taking advantage of trade opportunities when they exist.

We need to address risks like these that the extreme poor face, in parallel with efforts to integrate markets and connect the poor to these markets.

Fifth and finally, we need better data – and more intensive efforts to combine different data sources to inform policy.

You heard about this earlier, but I want to underline that we are working both to collect more targeted data and make better use of existing sources. This includes data that we might not normally think of in a trade context – I think the example we heard of geospatial data earlier is an excellent one.

The objective here is to gain a more systematic understanding at the country level of the linkages between the livelihoods of the extreme poor and trade – along with the constraints they face in taking advantage of trade opportunities.

I want to underline that this effort on data is not about abstract research projects – it is essential for providing the evidence base for reforms and development programs to benefit the extreme poor.

Let me conclude by assuring you we are intensifying our work across each of these five areas.

We are implementing projects like the $130 million Great Lakes Trade Facilitation project that specifically aim to facilitate trade in ways that will have a high impact on poverty reduction – particularly small-scale traders.

We have intensified our efforts to lower trade costs between countries, including through a dedicated $36 million initiative to implement the WTO Trade Facilitation Agreement.

We are piloting new analytical methods in six countries in Africa and Asia to design trade projects and reforms that more effectively target the extreme poor.

And we have intensified our advocacy in the G20 and elsewhere about the importance of lowering trade costs and integrating developing countries more fully into trade. These are just a few examples of the work we are taking forward.

I would like to leave it here for now but look forward to further discussion.