

# **Trade-Development-Poverty Linkages: The Role of Aid for Trade**

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# Trade openness and Poverty Experiences

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- Strategy for growth and poverty reduction
- Shift from IS policy - engaged in MTNs
- Foreign aid and campaign for 'trade not aid'
- Liberalisation and MTNs - a new era?
- But, TDP experiences – very diverse
  - TDP linkages: inconclusive

# Trade-Growth-Poverty Linkages

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- Trade-poverty nexus through 2 routes
    - Trade → Growth → poverty alleviation
    - Trade → income distribution
      - A comprehensive framework with changes in prices, markets, revenues, and distributional consequences (Winters, 2000)
  - Theory and empirical evidence is mixed
  - +ve relationship is generally reported, but a wide variation in country experiences
  - Country-specific empirical evidence is perhaps now more important
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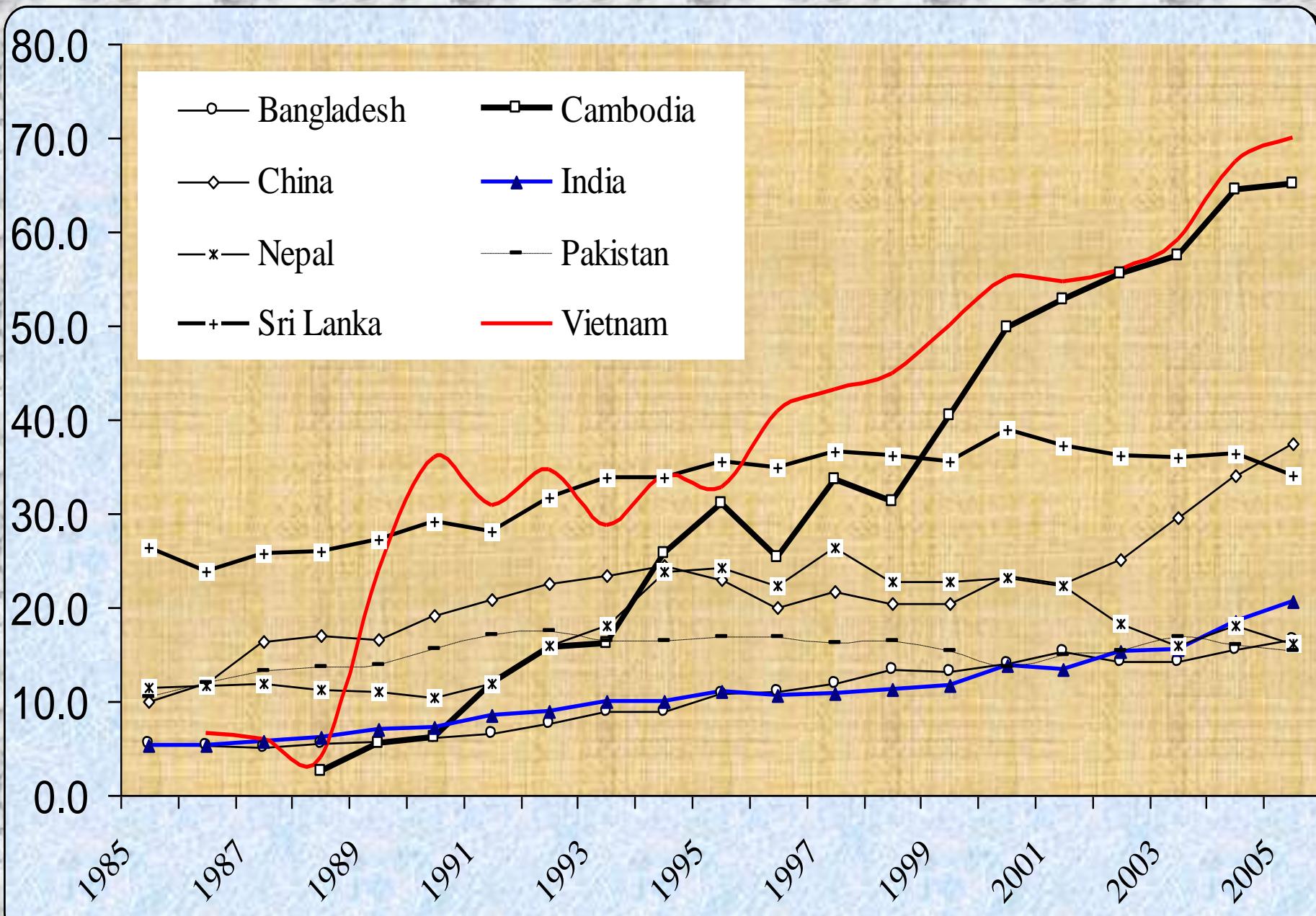
# Lessons from CUTS TDP Studies

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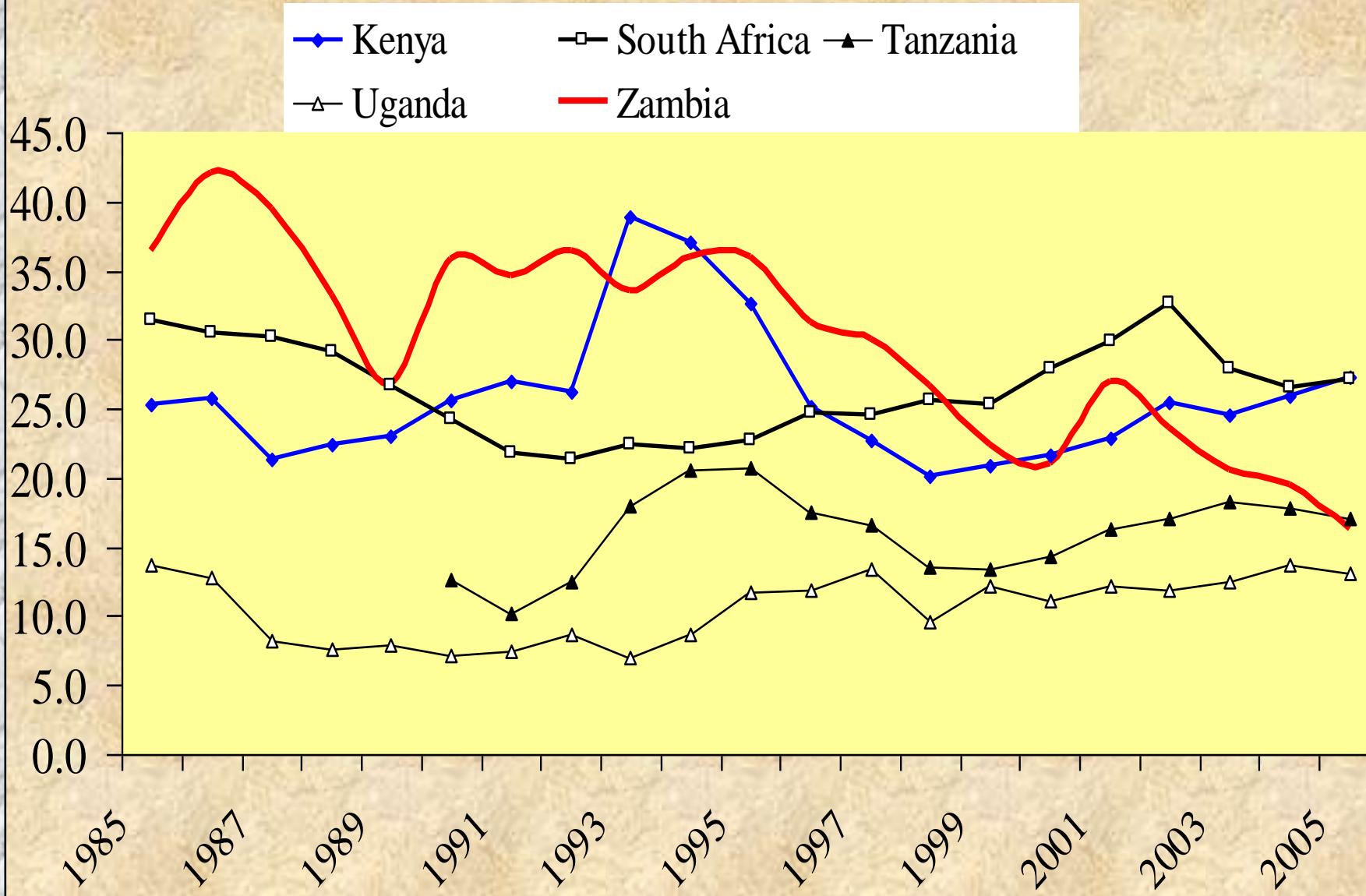
- **8** from Asia (Bangladesh, Cambodia, China, India, Nepal, Pakistan, Sri Lanka and Vietnam)
  - **5** from sub-Saharan Africa (Kenya, South Africa, Tanzania, Uganda, and Zambia)
  - Set of diverse countries
  - From restrictive trade regimes to liberalisation:
    - declines in QRs and import tariffs; relaxation of foreign exchange controls; privatisation of SOEs; promotional measures for exports.
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Countries	Pre-reform avg tariffs	Most recent avg tariff	trade-wt avg tariffs	% of lines > 15%
BGD	94 (1989)	15	n.a.	40
CAM	35 (1996)	14	11	19
CHN	40.3 (1990)	9.9	4.7	16
IND	81.8 (1990)	19	15	22
NEP	23 (1988)	14	n.a.	17
PAK	64.8 (1990)	14	13	40
SRL	28.3 (1990)	11	7.4	21
VNM	30 (1989)	17	n.a.	41
KEN	43.7 (1990)	13	6.2	41
SAfR	12.7 (1988)	8	6.1	21
TAN	29.7 (1990)	13	9.7	41
UGA	19.9 (1987)	13	12	41
ZAM	29.9 (1987)	14	12	33

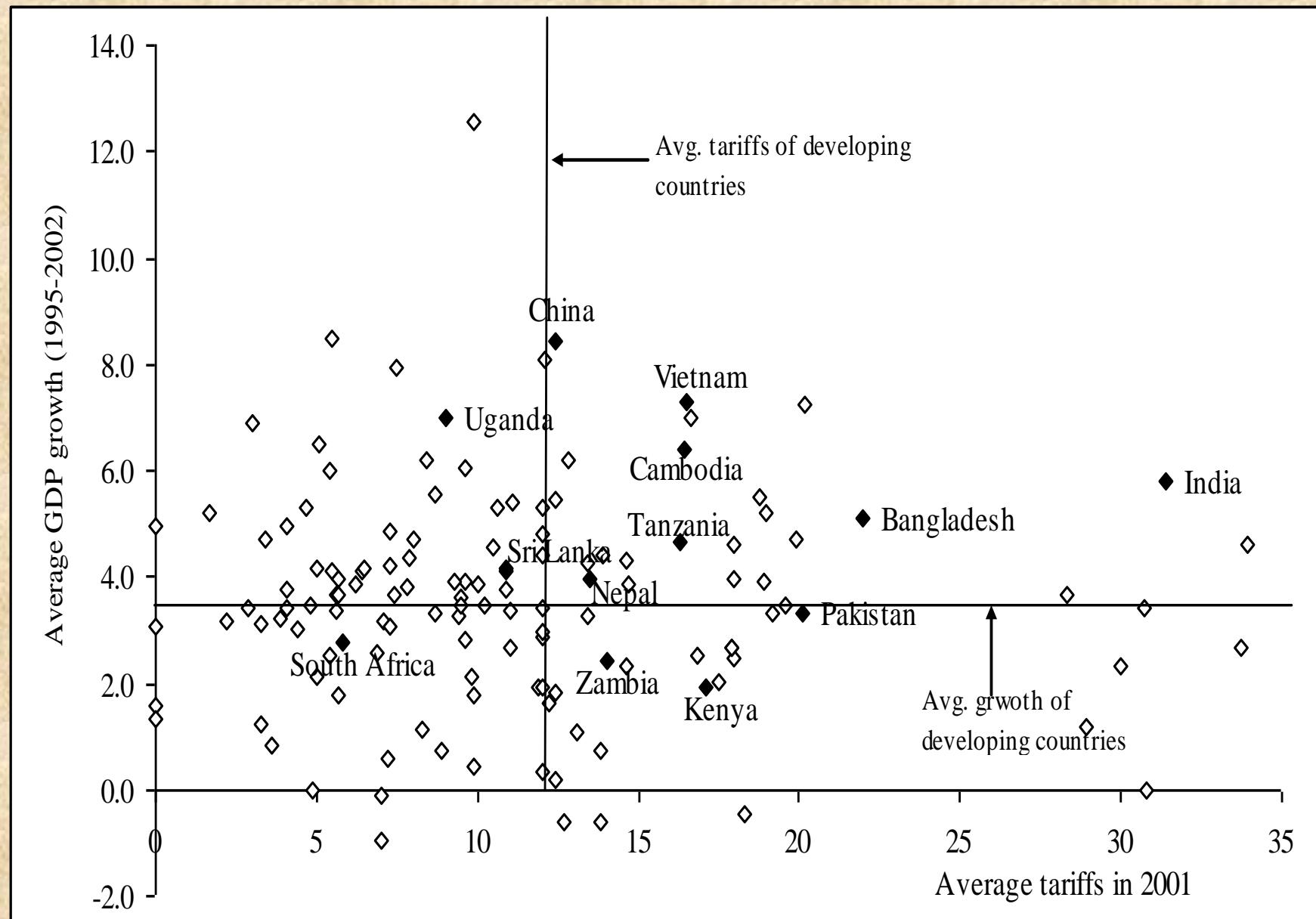
# Export-GDP Ratio in Asian TDP Countries



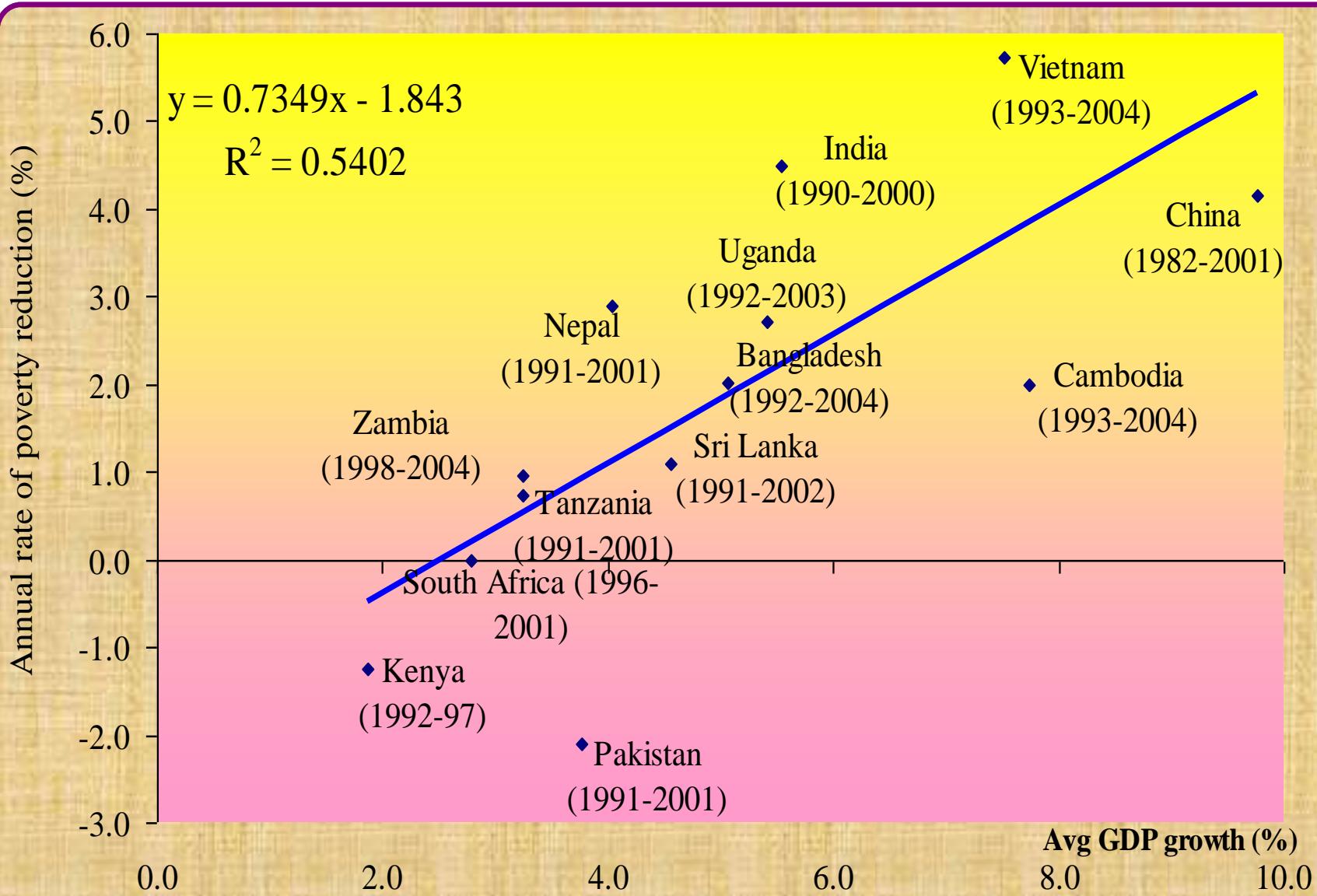
### Export-GDP Ratio (%) in African TDP Countries



# Tariffs and Growth: TDP and Developing Countries



# Growth and Poverty in TDP Countries



# Evidence and Development Strategy

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- UNCTAD (2004) – Amongst LDCs, poverty incidence rose in the most open and closed economies.
  - Ravallion (2006) – striking econometric evidence for China
  - Data scarcity for empirical assessment using comprehensive framework (e.g. proposed by Winters)
  - So, lack of understanding with implications for mainstreaming trade in development strategies.
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# How can AfT Help?

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- Export response to liberalisation
  - Is the removal of anti-export bias enough?
    - ❖ Stakeholders – if exports grew, they would have been less concerned.
    - ❖ Liberalisation-growth controversial but not trade-growth
    - ❖ Exporting requires knowledge, better infrastructure.
      - ❖ (Entrepreneurs often tend to look for their domestic market simply because they know it better)

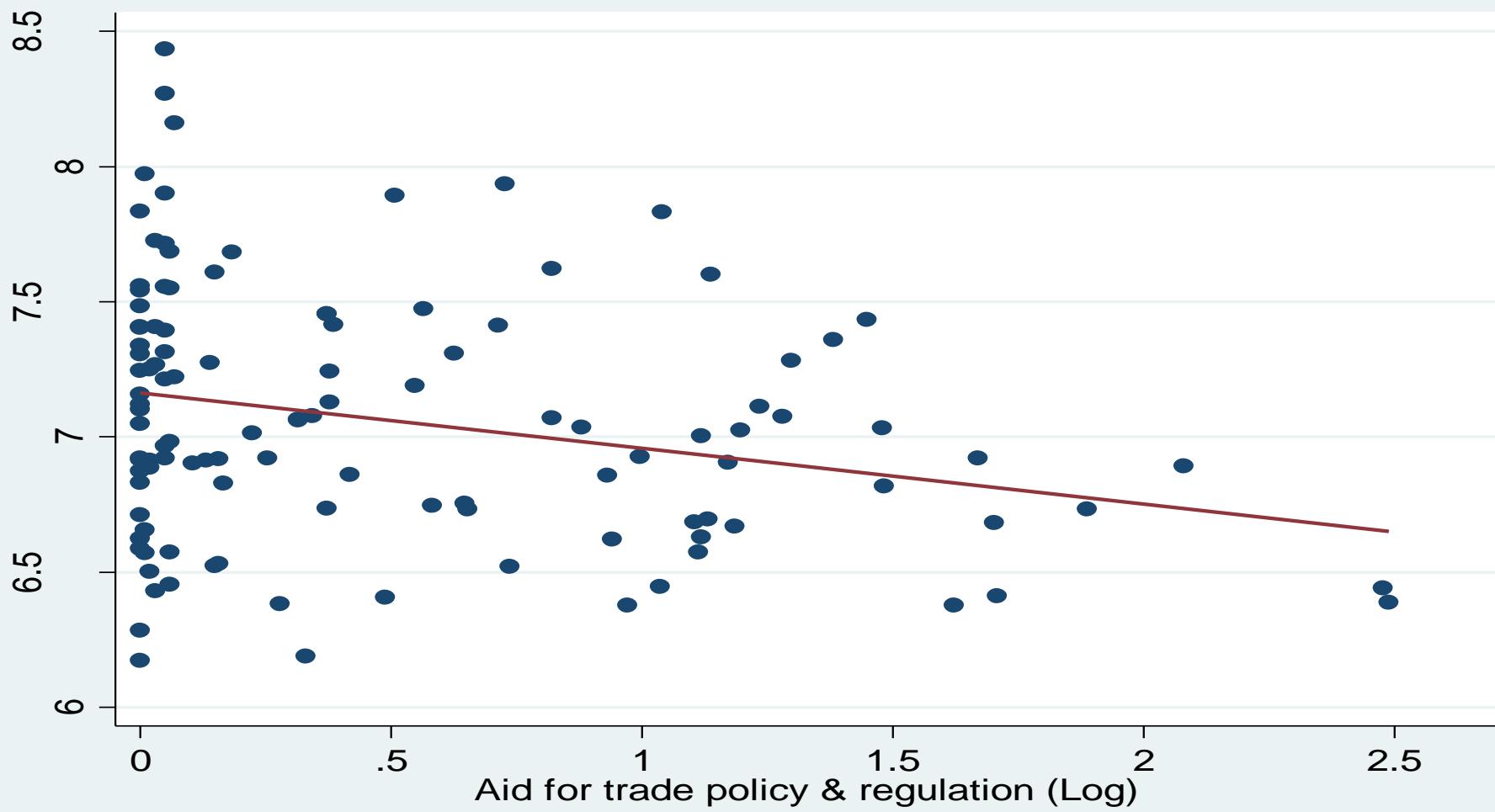
# How can AfT Help?

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- Easy versus difficult but fundamental reforms
  - Weak institutions make incentives often inaccessible
  - Inefficient customs, tax, banking, standards, port-handling contract enforcement procedures raise trading costs
  
- Weak social and physical infrastructure
  - Make countries uncompetitive (literature on Africa on excessive transportation costs)
  - Poor physical infrastructure tend to raise protection

# Effectiveness of AfT

- ComSec-ODI study - ATPR (1%) significantly reduces cost of trading (0.13%).



# Effectiveness of AfT (contd.)

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- ComSec-ODI study also finds:
    - ATPR is significantly associated with reduced time to export
    - Aid for trade facilitation with cost of exporting (transportation from factories to ports)
    - Aid for productive capacity by sectors (e.g. manufacturing, minerals, tourism) tend to have strong effects on sectoral exports.
    - Aid for economic infrastructure also has positive impact on exports.
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# AfT: To support Knowledge Development

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- Development of domestic productive capacity
  - Export's 'engine' role not required for trade-poverty relationship
  - What countries export matter?
    - Hausman-Rodrik-Klinger - current exports have implications for diversification and overall growth
    - i.e. if countries cannot produce 'rich country products' they cannot be rich
    - So, reinforcement of static comparative advantage through liberalisation would not lead to break into products that can foster and sustain growth
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# To support Knowledge Development

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- The above encourage countries for selective intervention
  - The renewed sense of ownership and policy space and dynamic comparative advantage
    - But consequences for identifying wrong sectors for support
    - Political economy of protection
  - → Support for developing pragmatic policy options so that ownership can be effective
    - Some work in the context of Ghana
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# AfT: To promote services Trade

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- Services sector is important
  - Liberalisation of Mode 4 (particularly involving semi- and low-skilled labour) – favourable trade-poverty relationship
    - US\$ 156 welfare gains by 3% opening-up
  - Temporary and managed migration can result in a 'win-win' situation
    - ensure training of workers in their home countries for internationally recognized skills and certification, and create incentives for return migration to countries of origin.
  - Aid for trade could be useful in developing services exports
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# AfT to recognise heterogeneity

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- Countries are different
  - Trade-growth-poverty linkages are different
  - AfT support mechanism are likely to be heterogenous to be effective
    - For some countries static comparative advantage
    - For others dynamic comparative advantage
    - For some countries goods, for others services
  - Therefore, country specific requirements and perhaps implementation mechanisms needed
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# The Role of Int'l Community

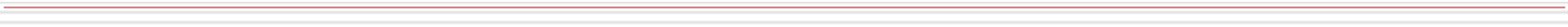
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- Trade restrictions
    - Market access constraints including rules of origin
  - Supply-side capacity and sensitive products
  - Lack of consistency in international policy and development support regimes
    - Aid for trade is promoted but little progress has been made on MDG-8
  - Commitment on increased AfT flow with additional ODA
  - To review why ODA has not been fruitful and take lessons
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# Concluding remarks

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- Trade-growth-poverty reduction: assessment is difficult – evidence is mixed.
  - Mainstreaming trade in devt strategy is challenging.
  - Improved ss-side capacity is a precondition for benefiting from liberalisation adequately.
  - Fundamental reforms involving institutions, improved infrastructures and capacity-development are 3 key areas for support.
  - There is some evidence of Aft being effective
  - Ownership, support for knowledge devt, and country-specific approaches are important
  - Supportive int'l policies are required for promoting trade-poverty linkages.
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**Thank you very much.**