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

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Trade openness and Poverty Experiences

- 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

- 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
Lessons from CUTS TDP Studies

- **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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<th>Countries</th>
<th>Pre-reform avg tariffs</th>
<th>Most recent avg tariff</th>
<th>trade-wt avg tariffs</th>
<th>% of lines &gt; 15%</th>
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</tbody>
</table>
Tariffs and Growth: TDP and Developing Countries

- Uganda
- South Africa
- Tanzania
- Zambia
- Kenya
- Pakistan
- Vietnam
- Sri Lanka
- Nepal
- Bangladesh
- China
- Cambodia
- India
- Pakistan

Avg. grwoth of developing countries
Avg. tariffs of developing countries

Average tariffs in 2001

Tariffs and Growth: TDP and Developing Countries
Growth and Poverty in TDP Countries

\[ y = 0.7349x - 1.843 \]

\[ R^2 = 0.5402 \]
Evidence and Development Strategy

- 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.
How can AfT Help?

- 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?

- 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%).
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.
AfT: To support Knowledge Development

- 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
To support Knowledge Development

- 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
AfT: To promote services Trade

- 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
AfT to recognise heterogeneity

- 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
The Role of Int’l Community

- 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
Concluding remarks

- 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.
Thank you very much.