



**COURSE ON KEY ISSUES
ON THE INTERNATIONAL
ECONOMIC AGENDA**

Short Courses for Permanent Missions in Geneva

Making Trade Work for Least Developed Countries The links between Trade, Poverty and Development

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Outline

1. Background
2. Stylsed Facts
3. Trade and Poverty Links
4. Conclusion



MDG8: Develop a global partnership for development

SDG 17: strengthening the global partnership for sustainable

SDG 8 on economic growth, employment & work

SDG 10 on inequalities within and among countries



SDG 17

Trade

- Promote an *universal, rules-based, open, non-discriminatory and equitable* multilateral trading system under the World Trade Organization;
- Significantly increase the exports of developing countries, in particular with a view to doubling the LDCs' share of global exports by 2020;
- Timely implementation of duty-free and quota-free market access on a lasting basis for all LDCs, consistent with WTO decisions, ensuring that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access.

Systemic issues (important for trade mainstreaming)

- Enhance policy and institutional coherence for sustainable development
- *Multi-stakeholder partnerships*
- *Data, monitoring and accountability*

Finance, technology, capacity building



Istanbul Programme of Action for LDCs

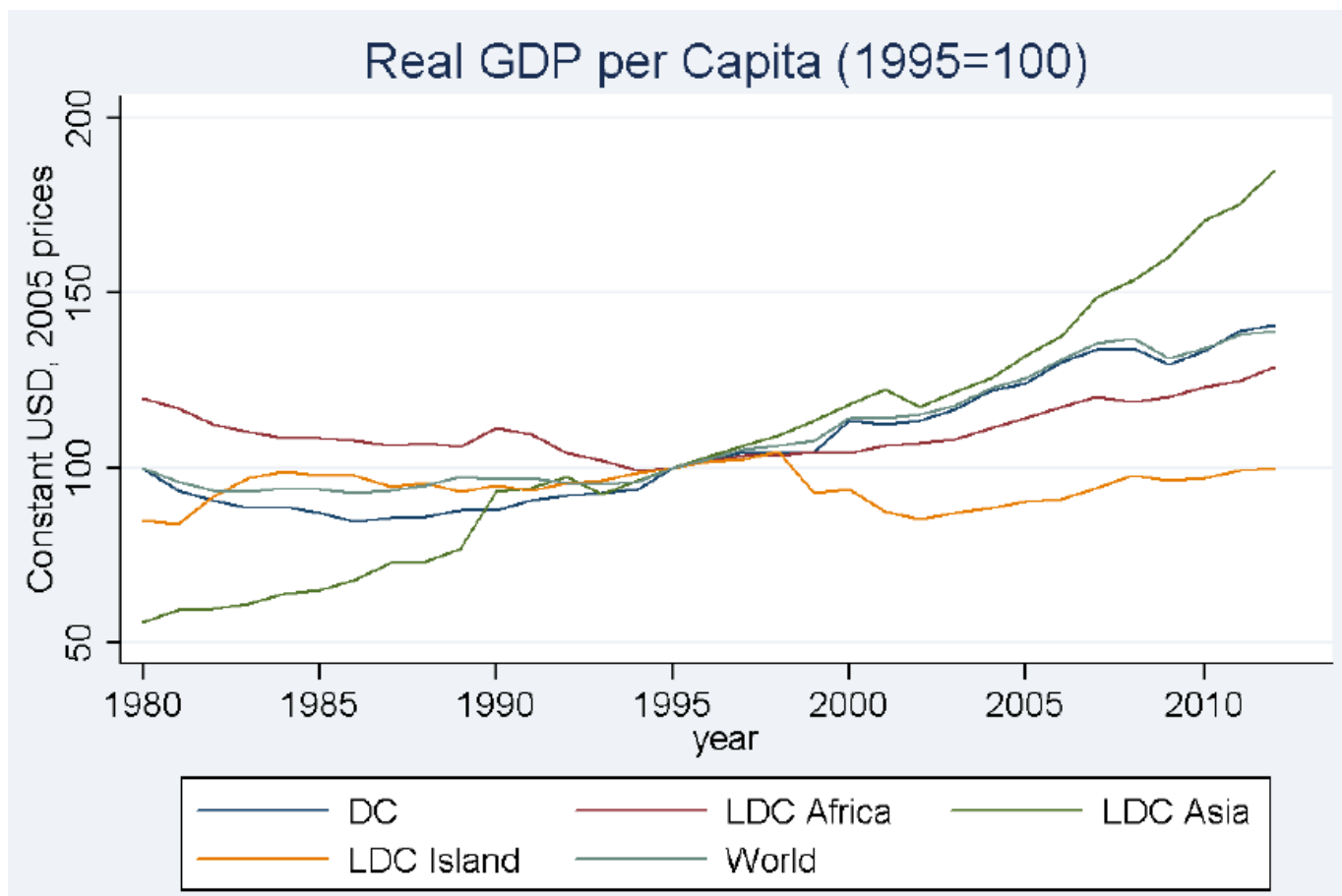
Aims to overcome the structural challenges LDCs confront to eradicate poverty, achieve internationally agreed-upon development goals, and exit from the LDC category.

Key objectives of the IPoA include:

- Strengthening productive capacities in LDCs, reducing their vulnerability to economic, natural, and environmental shocks, ensuring enhanced financial resources, and improving the quality of governance.
 - **Trade-related priorities:** productive capacity, agriculture, food security and rural development, trade, commodities, mobilizing financial resources for development and capacity-building, and improve governance at all levels.
 - **Specific goals:** double the share of LDCs' exports, etc. - akin to SDG17.



Stylized Facts: Real Income in LDCs

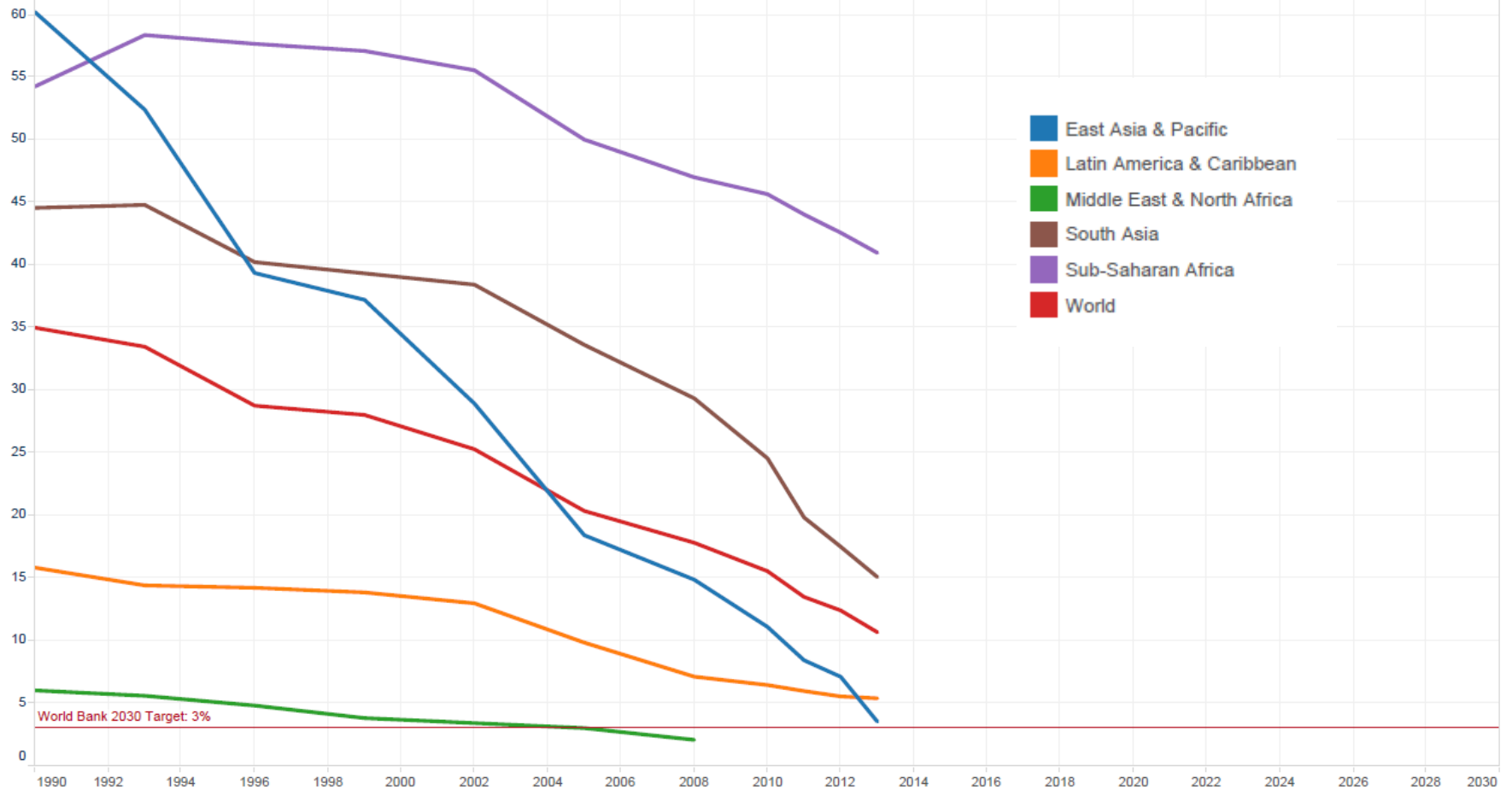


Source: World Bank World Development Indicators

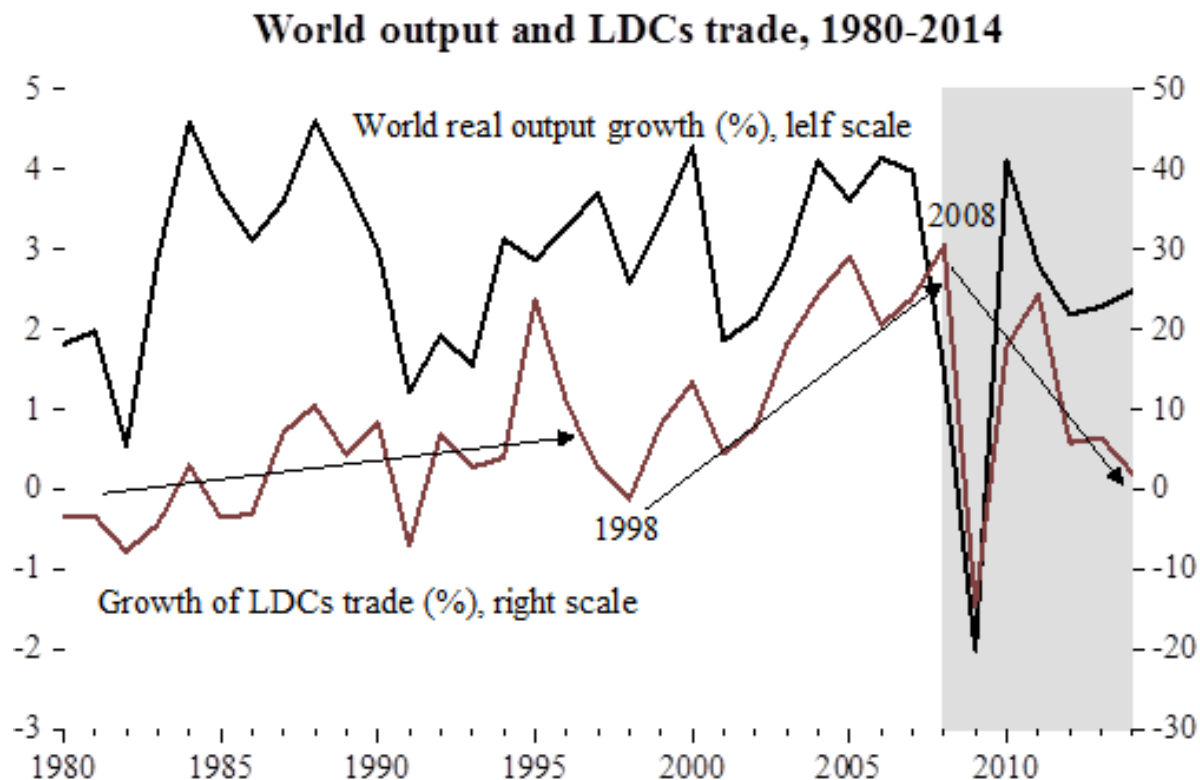


Stylized Facts: Poverty - SDG 1

Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)



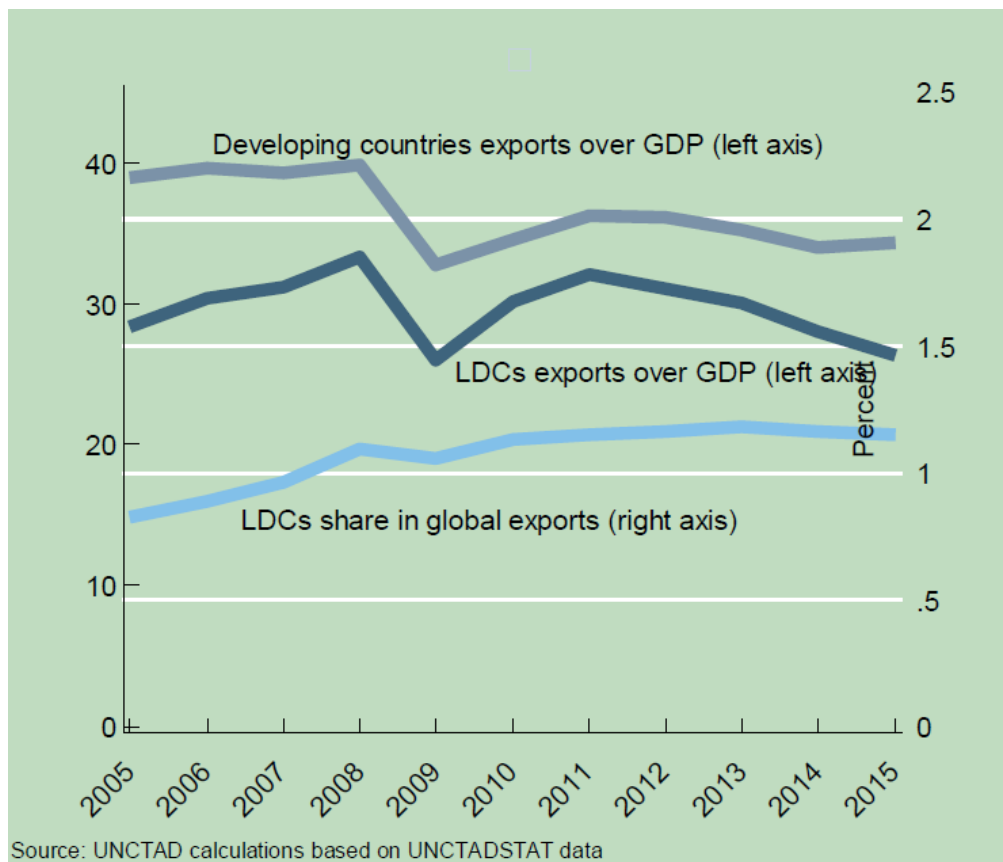
Stylized Facts: Global Growth and LDCs Trade



Note: total trade measured in US Dollars at current prices and current exchange rates in millions.

Source: UNCTAD.

Stylized Facts: Trade in LDCs



UNCTAD's Key Indicators and Trends in Trade Policy, 2016



Linkages between Trade, Development and Poverty Reduction



Trade and Development linkages

So far research shows that trade:

(E.g. UNCTAD, 2000; Winters et al, *JEL* 2004; Santos-Paulino and Thirlwall, *EJ* 2004; Goldberg and Pavnick, *JEL*, 2007, Santos-Paulino, *WE* 2005)

- (on average) improves country's growth;
- has ambiguous impact on inequality and poverty.

*Trade can lead to economic growth, poverty reduction and sustainable development: **But**, the links are not automatic!*

Beyond policy harmonization and market access, is there evidence that LDCs are catching up with other developing countries?



Trade and Poverty Reduction

- Trade specialization can lead to poverty reduction but only under specific patterns and policy conditions (Santos-Paulino, 2016 JITD forthcoming).
 - E.g. in all developing countries, manufacturing exports contribute to poverty reduction, whereas for low income countries the share of agriculture exports has a significant poverty reduction effect.
 - Moreover, the "poor" will benefit from globalization if the right complementary policies and institutions are in place.



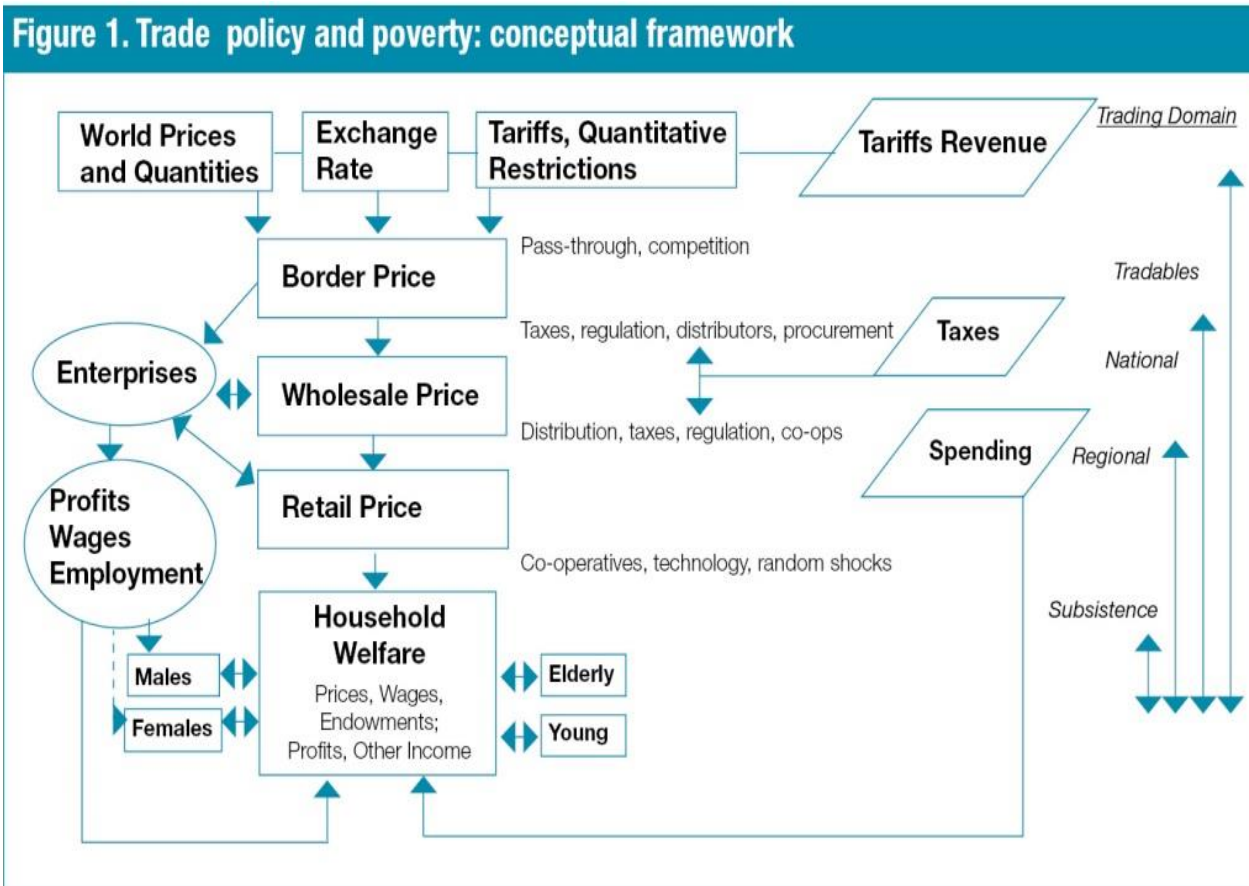
Trade and Poverty Reduction

Transmission mechanisms from trade to poverty

- **Indirect link:** by strengthening productive capacities and employment, strong economic growth may help to reduce poverty.
- **Direct link:** via the impact on domestic prices and government expenditure.



The links between Trade and Poverty



Source: McCulloch, Winters and Cirera (2002).



Channels

Channel 1

Price transmission: i.e. the various links in the chain that connect world prices to prices paid by households and firms in an economy:

Prices are determined by how the world price is affected by *the exchange rate and trade policy instruments at the border* (tariffs, quotas, etc., as well as the costs associated with customs controls, delays, waste and losses, and informal payments and fees that are incurred by importers).



Channels

.../

- Impact on household welfare depends on the retail prices of goods consumed, which are determined by wholesale prices;
- Effects of domestic price of imports (resulting from trade policy) on enterprises that operate in the country. These effects may be negative or positive.



Channels

Channel 2

- *Government expenditure*: Import tariffs or export taxes imposed at the border will generate revenue that can be used to provide transfers to households, either:
 - *directly* in the form of fiscal transfers / social programmes;
 - *indirectly* in the form of public services such as health and education. The relative importance of tariff revenue depends on how effective a government is in taxing other forms of economic activity — e.g. consumption, income, and profits.



Trade and Poverty Linkages

On balance:

- Trade policy changes will have differential effects on households and enterprises depending on whether firms and workers are engaged in export production, focused on the domestic market and involved in producing goods that face competition from imports, or engaged in non-tradable activities.
- Effects of trade policies will also differ depending on the time period considered:
 - In the short run, the effects of changes in relative prices will have an impact on profits, wages, and consumer prices;
 - In the longer run, there will be adjustments as firms reallocate resources to sectors that have become more profitable and exit activities that are no longer profitable.



Trade and Poverty Linkages

On balance:

- The magnitude of the relative price effects and thus their quantitative impact on poor households, depends on the degree to which trade-policy-induced price changes are “passed through” to consumers and enterprises and on the supply responses by firms.
 - If the distribution system is not competitive, or if households are located in remote regions that are badly served, retail prices may not be very responsive to changes in border prices.
 - If there are missing markets or prohibitively high costs (because of poor infrastructure or excessive transaction costs and red tape) for firms associated with investing in a sector in which the country has a potential comparative advantage, then the supply responses to trade policy reforms may be weak.



Trade and Poverty Reduction

Trade policy per se is not sufficient to increase economic growth and lower poverty:

- A high level of human and institutional capacity is necessary to formulate and implement effective trade strategies ([Session 2](#)).
- Trade policy can encourage diversification into higher value added activities and open up new investment opportunities, which can in turn support inclusive growth and help reduce poverty.



Thank You!

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