

Trade, Growth, Poverty and Aid for Trade

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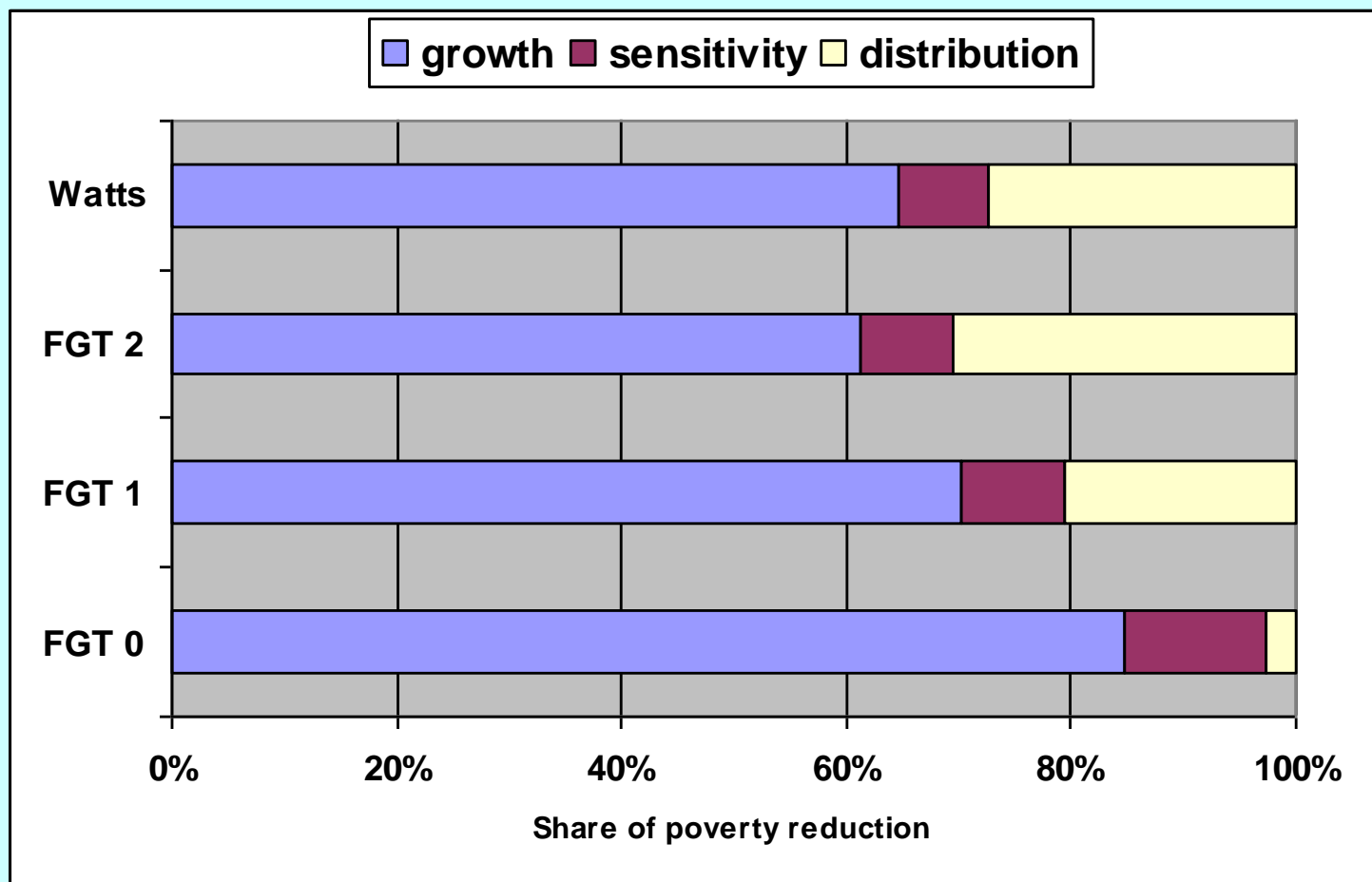
Trade and the Financial Crisis

- Even more important than before:
 - Source of markets
 - Source of lower prices, efficiencies
 - Spreading risks
- Open economies
 - Start from a better position
 - More exposed, but more resilient (Balassa)
 - And smart policies help further

Outline

- Macroeconomic links
 - Trade → growth → poverty
- Microeconomic links
 - Trade → poverty
- Boosting trade – getting concrete

Shares in Long-run Poverty Reduction (Kraay cross-section)



Trade and Income: The Theory

- Specialization
- Economies of scale
- Competitive pressures
 - X-inefficiency, innovation
- Inputs and technologies from abroad
 - Wider selection of stimuli

Methodological Challenges

- Defining openness
- Measuring trade policy and other frictions
- Establishing causation
 - Liberalisation → growth or vice versa?
- Separating openness from other policies
 - the attribution problem

Openness

- **X/GDP summarises unobservables**
 - Gross value vs. value added
 - Potential competition – low trade volumes
- **Not just formal trade barriers**
 - exchange rate regimes
 - ‘natural protection’, logistics
 - FDI, migration

Establishing Causation

- Trade outcomes partly endogenous
- Trade policy may be too
- Isolate the exogenous component
 - Frankel/Romer levels, natural experiments

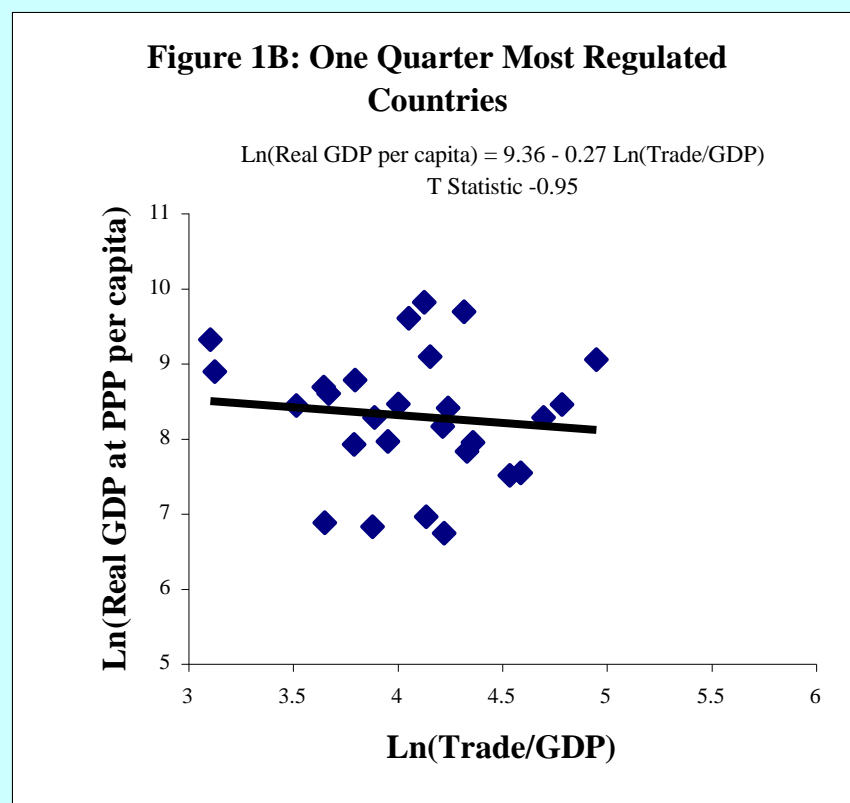
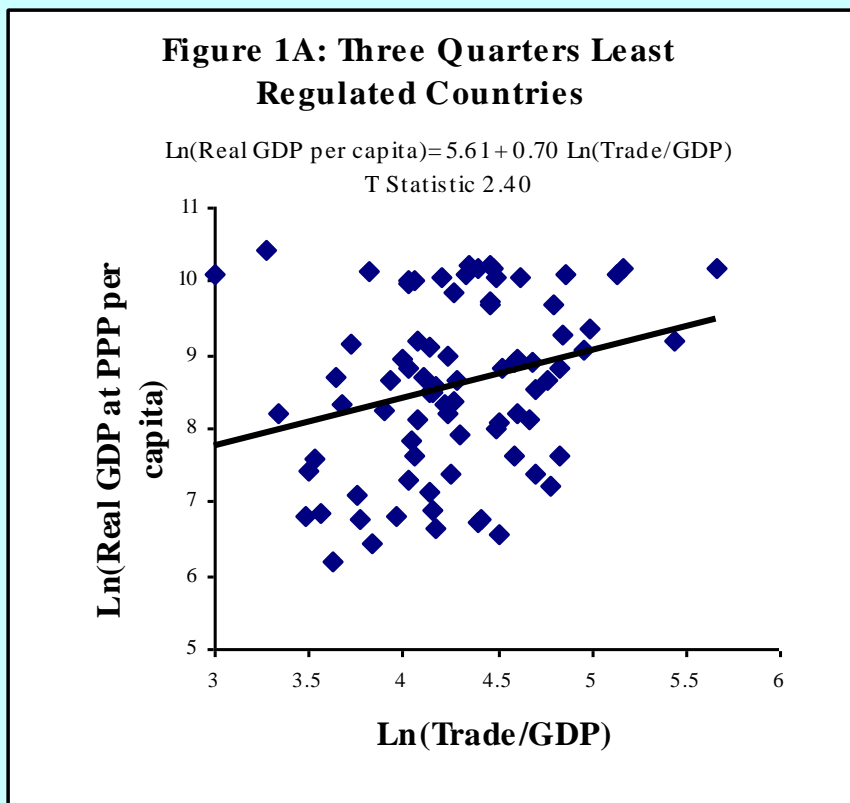
Separation from Other Policies

- Isolate effects - the **attribution** problem
- Include indirect effects
 - e.g. via institutions, investment, corruption
- Is it even sensible to try to isolate effects?
- Openness is only one component of the cocktail – much is unknown

Growth, Openness and Regulation

Less regulated

More regulated



(Bolaky-Freund; *JDE* 2008)

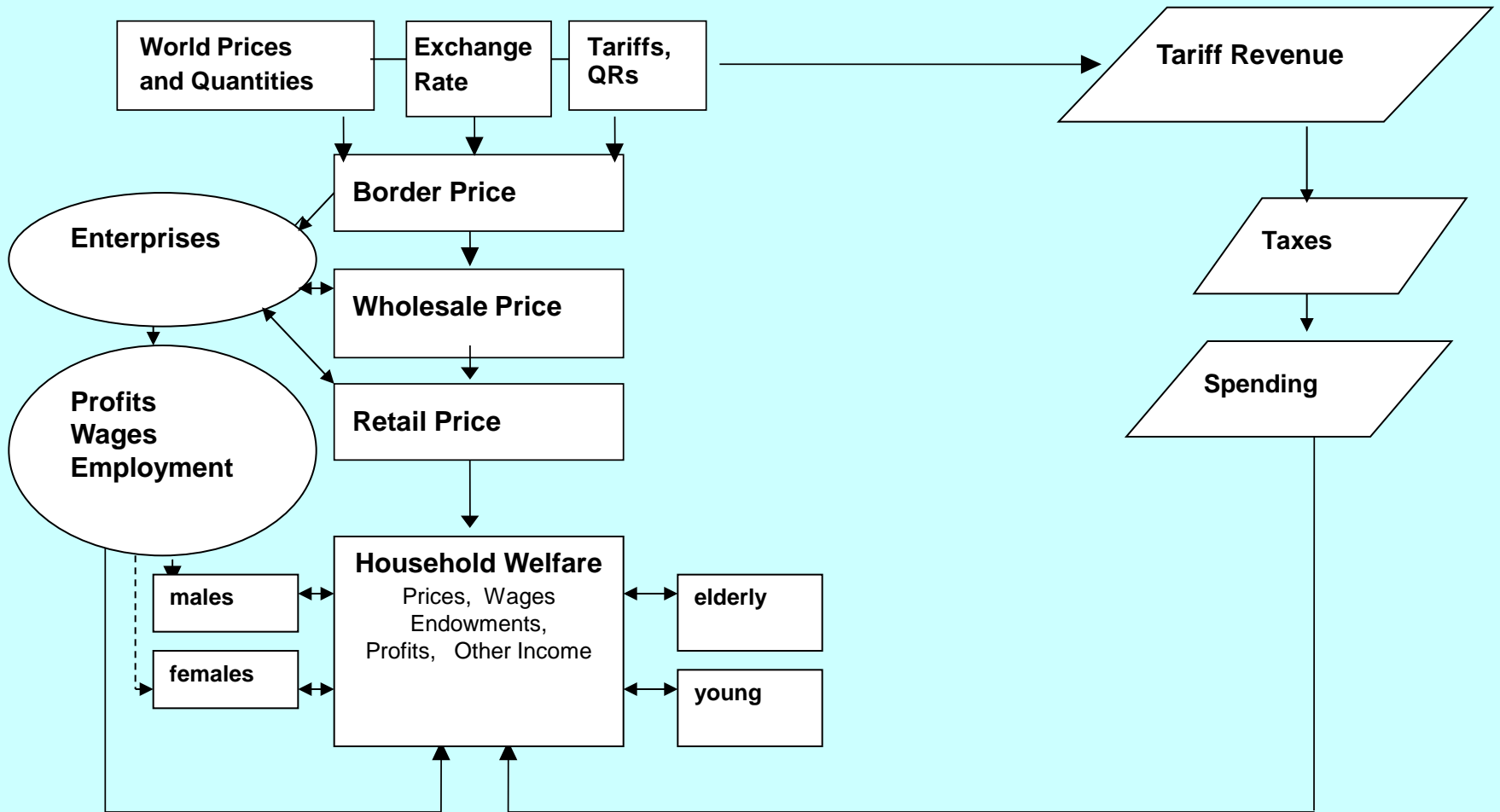
Investment

- Marginal returns to investment
- Marginal cost of investment – finance, price of equipment
- Technology transfer

Productivity

- Key to prosperity
- Strong regularity from trade liberalisation to productivity

Trade and Poverty – Causal Connections



Winters, *World Economy*, 2002

Households and Markets

- Do trade opportunities get transmitted to poor households?
- Are markets created or destroyed?
- How well can households respond?
- Do the spillovers benefit the poor?

Winters, McCulloch and McKay *J Economic Literature*, 2004

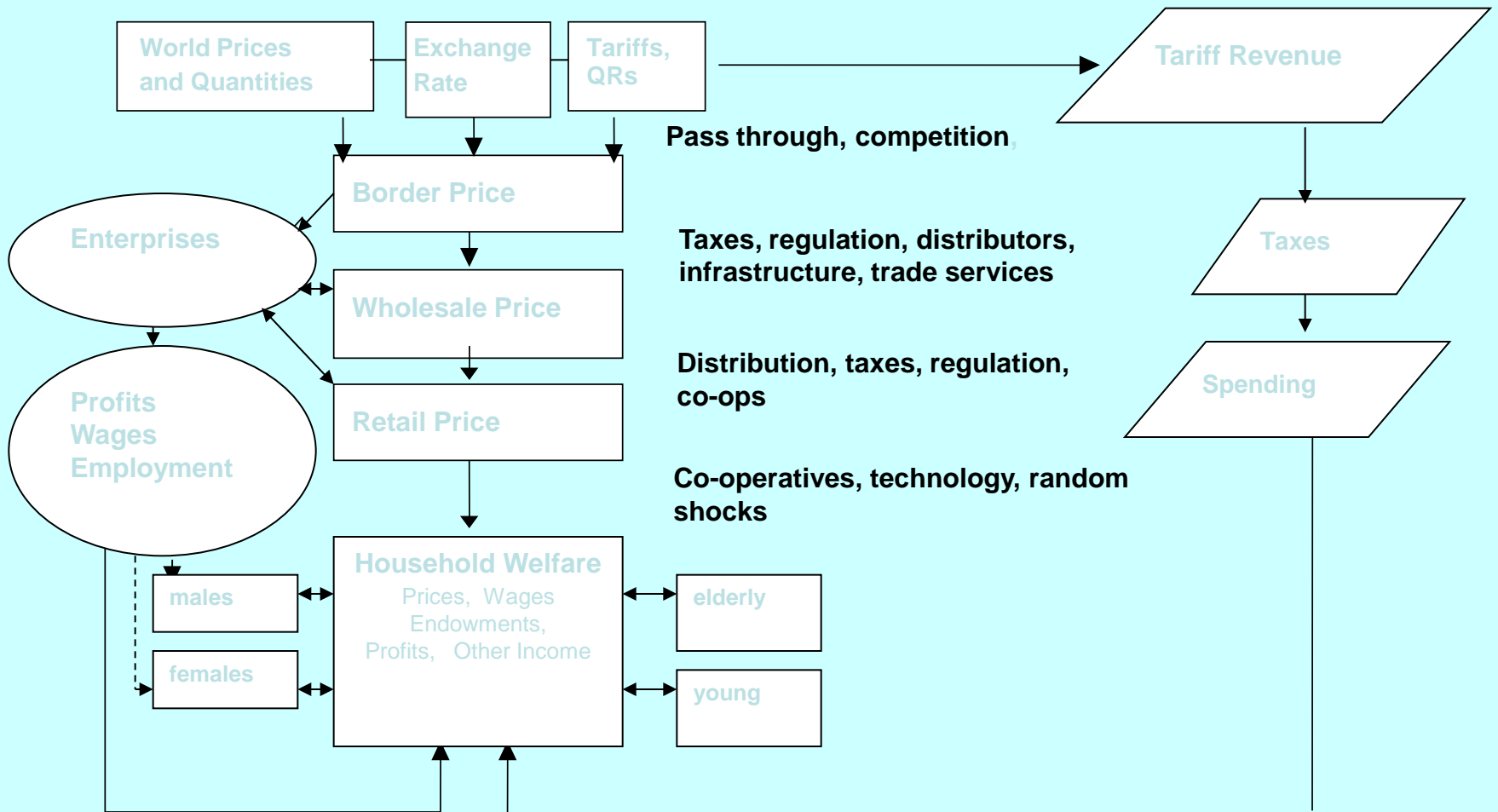
Wages and Employment

- Does increasing trade raise wages or employment?
- Is transitional unemployment concentrated on the poor?

Government Revenue and Spending

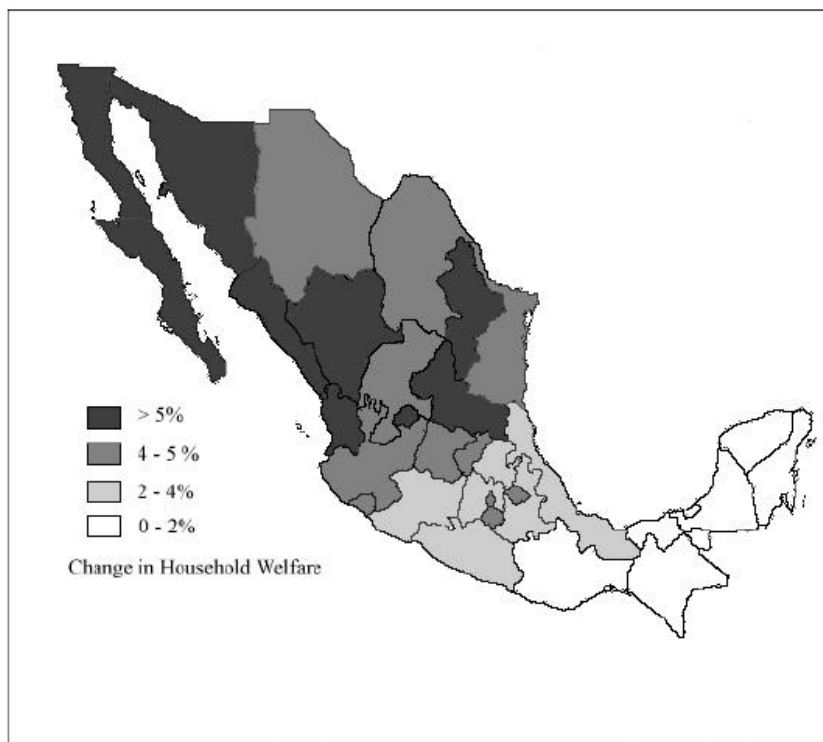
- Is increasing trade associated with lower or higher government revenue?
- Do falling tariff revenues hurt the poor?

Trade and Poverty – Causal Connections



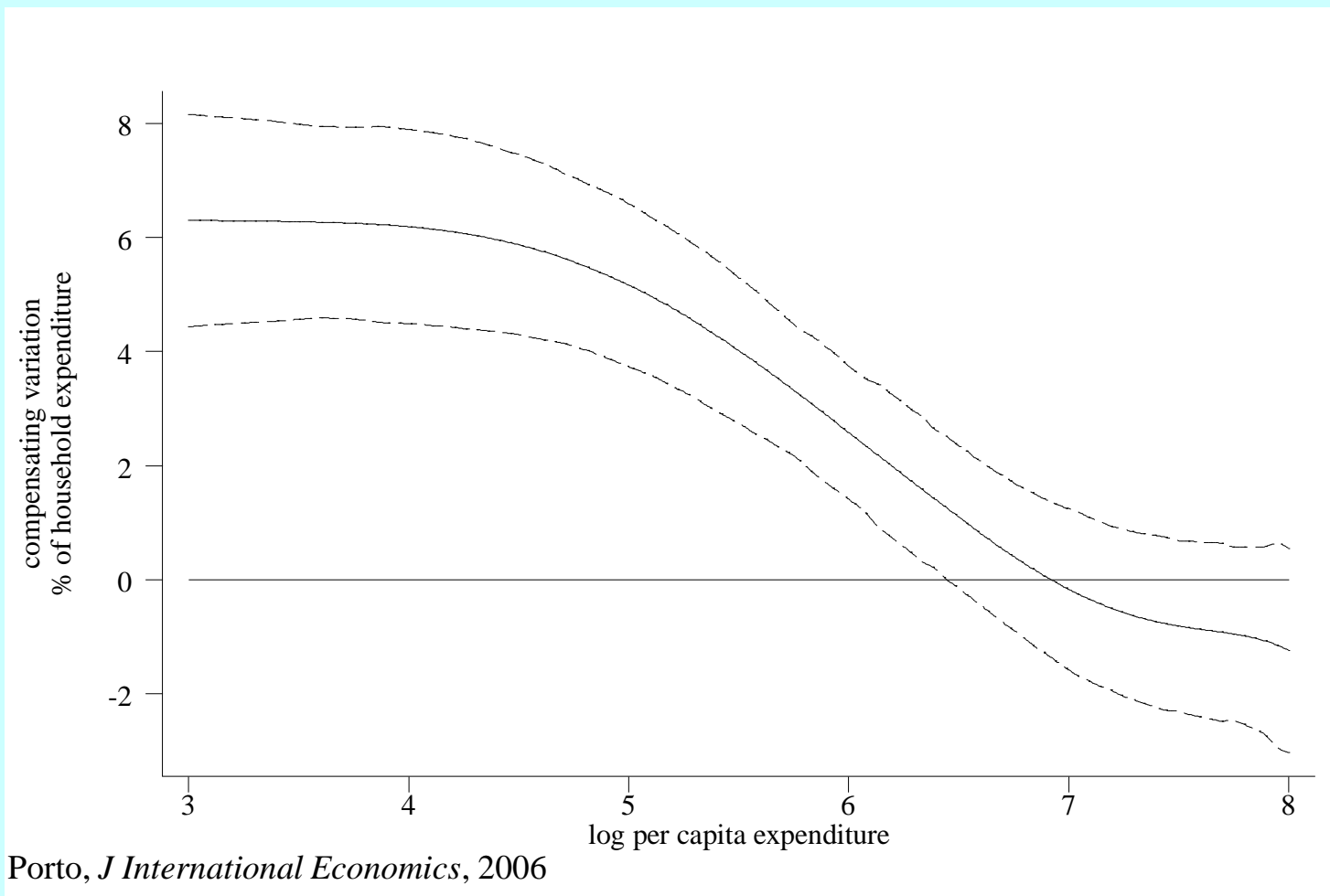
Incomplete price transmission yielded unequal gains from Mexican trade reforms in 1990's

Figure 5.3 Trade Liberalization and Households Welfare: Regional Effects.



Source: Nicita, 2004.

Total Welfare Effects of Mercosur: Argentina



AfT increases capacity to trade competitively

- Increasing efficiency and effectiveness of trade policy and regulations,
- Increasing productivity
- Improving economic infrastructure.
 - ‘pave the way for new industries, structural transformation and export diversification’;
- Addressing adjustment needs

High Transactions Costs

- Trucks at Petrapole–Benapole wait 10 days
- Transport costs in East Africa on average 80% higher than USA & Europe
- It costs as much to move a container from Mombassa to Kampala as it does from Mombassa to Shanghai
- In Rwanda, the average import procedures 124 days. OECD average 12 days.

Reduced Border Delays

- Trade Investment Facility in Lesotho, the One Stop Shop
 - export applications processed in 15 minutes rather than 7 days
 - Exporters fill in 2 pages of forms instead of 23.
- One Stop Border Posts
 - Zambia and Zimbabwe at the Chirundu border
 - Setting up between South Africa and Mozambique
 - asked to support five more

Improved Customs Performance

- Rwanda reduced transit times and improved revenue collection.
- Revenue Authority nearly tripled tax revenue over five years, despite falling tax rates
- Increase in poverty reduction expenditure from 5.3% of GDP in 2001 to 10.1% of GDP in 2005

Standards and Intellectual Property

- Fisheries export in Mozambique supports 70,000. Regional Standards Programme helped maintain EU standards accreditation
- Licensing programme secures trademarks for Ethiopia's fine coffee brands in 28 countries.

Operationalising AfT in Africa

- Needs are very large:
 - transport, energy and regional integration
- Often regional approaches are needed
- Must build trade-related projects into budget and planning cycles
- Must consult meaningfully with private sector

Public Goods

- Data on trade and trade policies
- Most critical area is NTMs
- Data have generated a huge flow of research and analysis that previously we just not conceivable.
- Data are a public good – support from central funds

THANK YOU