

Written Notes on trade facilitation and poverty reduction

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I will give some my views on trade facilitation and poverty reduction mainly from poverty reduction aspect, though I do little research on trade or trade facilitation.

It is important to understand the conception of poverty reduction for the research on trade facilitation and poverty reduction. Some people think that poverty reduction means the growth of a country's whole welfare. In this sense, trade facilitation can promote poverty reduction. Two reasons are listed out: (i) Producers can offer their goods and services to more customers, and consumers have more choices, lower prices, and access to innovations. (ii) Open markets increase prospects of producing and selling new ideas and products locally, regionally and in global markets, which lead to more income opportunities and the improvement of living standards.

Some others hold the view that poverty reduction means the welfare increase of specific low income group. In fact, the increase of a society's welfare doesn't mean the welfare increase of specific low income group, maybe decrease the welfare of specific low income group in serious inequality conditions. So I think it is more significant for poverty reduction which is defined as welfare increase of specific low income group.

(II) Trade can act as a way to reduce poverty. There are two basic avenues to reduce poverty. One is the economy growth which relies on technology innovation, structure adjustment, and factor input etc.; the other is income re-distribution, for example Government takes a series of pro-poor policies which take less from the poor and give them more. We can see the relation between GDP and trade from the formula: $GDP = \text{final expenditure (family + Government)} + \text{capital formation (fixed asset formation + stock-in-trade)} + \text{net export (export-import)}$. Trade expansion can increase employment (labor input), and lower the goods price, so as to promote consumption and economy growth; at the same time it increases revenue, which provides possibility for poverty reduction.

(III) The relationship of trade and poverty reduction is more complex in total. There are some key factors influencing this relation: (i) Given a country, the relation between trade and poverty reduction is affected by trade structure which includes import structure, export structure and import-export structure. (ii) The poor's role and place in trade chain are also important to analyze the relation between trade and poverty reduction. The poor group may be producers, consumers or both or neither in the trade business. (iii) Whether the poor group benefit from the trade chain, it depends on the comparative advantage which they owns.

(IV) Trade facilitation is similar with a magnifier which enlarges the influence (include positive and negative) of trade on poverty reduction. In some occasions, because of trade structure, the direction of influence can be changed. The trade facilitation at first can expand the import and export flow. Some research found that after trade is facilitated, import flow is far bigger than export flow in developing countries. More import may influence some internal poor group.

(V) In order to reduce poverty, research on trade and poverty reduction should be focused on agricultural and processing industrial sectors on which poor group may rely highly in developing countries in Asia and Pacific regions. The benefit group from trade does not automatically focus on the poor, so trade facilitation measures should be taken in some specific sectors, e.g. agricultural and processing industrial sectors, in which the poor have comparative advantage, to transfer the benefits of trade facilitation to the poorer segments of the society and the less developed regions of the country.

(VI) Trade facilitation needs capital and technology input so the cost of trade facilitation is high for developing countries. The cost of trade facilitation may include infrastructure construction, institution reform, technology innovation etc. This is a reason why trade facilitation is promoted slowly with the understanding that poverty reduction means the growth of a country's whole welfare.

Case study is valuable for taking selective trade facilitation measures to promote poverty reduction with the understanding that poverty reduction means the welfare increase of specific low income group.

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