

Trade Facilitation and Poverty

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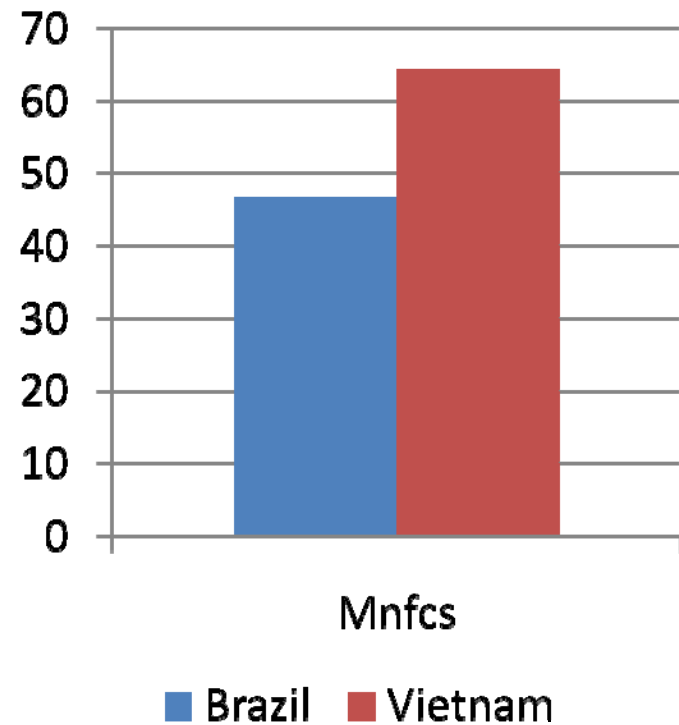
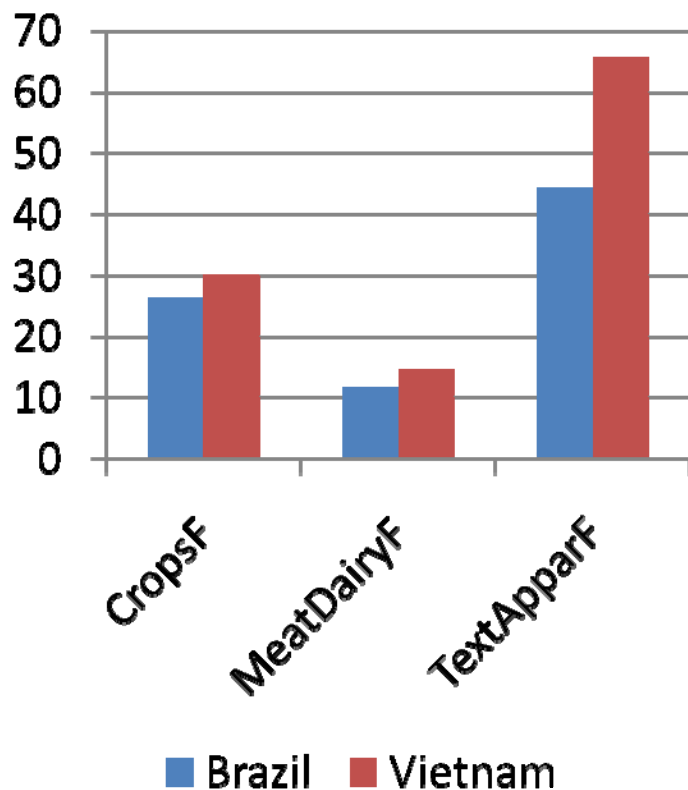
Introduction

- Trade facilitation: reducing red tape at the border
- Has been shown to affect trade. How does this affect poverty rates?
- Test a simple trade facilitation reform in “Rich” countries. How does this affect poverty rates in Brazil and Vietnam?

Experiment

- Trade facilitation is modeled as a shock to “ams”: import augmenting technical change, which lowers the effective price of imported products.
- We try two scenarios in each country:
 - 10% shock on agricultural goods imported by “Rich” countries
 - 10% shock on manufactured goods imported by “Rich” countries
- Interpretation

Starting Point: Trade Impact of AMS Shocks



Import prices (pms-ams) fall around 7-9%

Vietnam: Poverty Effects

		AGRICULT	NNAGRCLT	URBLABOR	RURLABOR	TRANSFER	URBDIVRS	RURDIVRS	Total
Agriculture shock									
	Earnings	-0.02	0.01	0.00	0.00	0.00	-0.01	-0.05	-0.06
	Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.02
	Cost of living	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.02
	Total	-0.02	0.01	0.00	0.00	0.00	-0.01	-0.05	-0.06
Manufacture shock									
	Earnings	0.02	-0.01	0.00	0.00	0.00	0.01	0.04	0.04
	Taxes	0.00	0.01	0.00	0.00	0.00	0.01	0.02	0.04
	Cost of living	-0.01	-0.05	-0.01	-0.02	0.00	-0.05	-0.24	-0.39
	Total	0.00	-0.05	-0.01	-0.02	0.00	-0.04	-0.19	-0.31

Vietnam

- Key stratum: Rural diversified.
- Earn their income from many sources, but wages for unskilled labor is important
- This decreases in the agriculture scenario and increases in the manufactures scenario.
- However, results driven by cost of living rather than earnings
 - Nominal prices rise for key group, but national income grows more

Poverty Impact of Trade Shocks

Brazil

	AGRICULT	NNAGRCLT	URBLABOR	RURLABOR	TRANSFER	URBDIVRS	RURDIVRS	Total
Agriculture								
Income	-0.1049	0.0103	0.0313	0.0373	0	-0.0268	-0.01	-0.0627
Tax	0.0012	0.0016	0.0087	0.0103	0	0.0025	0.0011	0.0254
Cost of living	0.0034	0.0047	0.025	0.0297	0.039	0.0115	0.0054	0.1187
Total	-0.1003	0.0167	0.065	0.0773	0.039	-0.0127	-0.0034	0.0815
Manufacturing								
Income	0.1118	0.0006	0.0259	0.0308	0	0.0433	0.0175	0.2299
Tax	-0.0003	-0.0005	-0.0026	-0.0031	0	-0.0007	-0.0003	-0.0075
Cost of living	-0.0339	-0.0472	-0.2489	-0.296	-0.3879	-0.1145	-0.0539	-1.1823
Total	0.0775	-0.0471	-0.2256	-0.2682	-0.3879	-0.072	-0.0367	-0.96

Earnings vs. Cost of Living

Agricultural Goods Trade Improvements

Additional earnings in Agriculture reduce poverty, earnings in other categories (wages) decline.

➡ **Positive Net Earnings Response**

Increased export demand causes real prices for consumption bundle of people around the 2\$ poverty line to rise

➡ **Negative Cost of Living Response**

Manufactured Goods Trade Improvements

Earnings in all categories are reduced.

➡ **Negative Earnings Response**

Prices increase because of boost to manufacturing, but broad enough to raise income faster, prices of imports fall.

➡ **Positive Net Cost of Living Response**

Summary and Conclusions

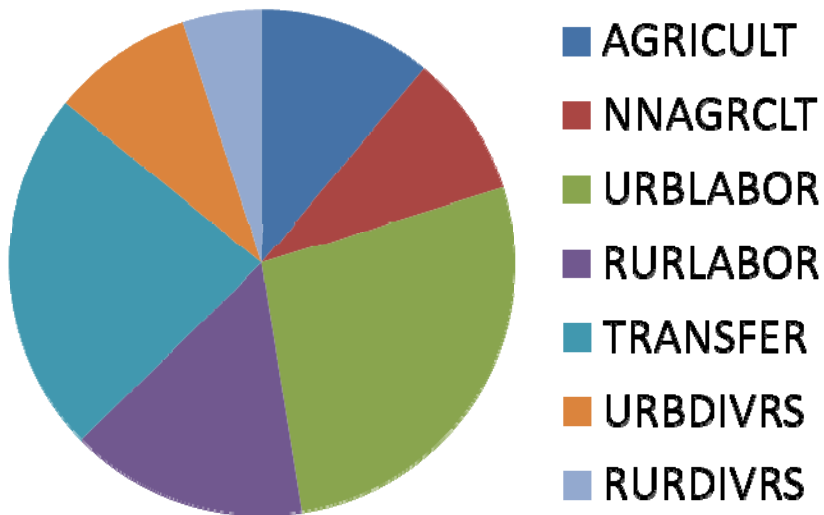
	Brazil	Vietnam
AMS(AG)	-	+
AMS(MNFCS)	+	+

Targeted technology improvement can have negative impact on poverty rates – earnings and cost dimension

Depends on the structure of the economy (share and reduction of unskilled wages made the difference)

Country Poverty Background

Brazil



Vietnam

