



Policy Brief

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Summarized Analysis on Trade and Poverty

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THE CONTEXT AND THE PROBLEM

With macroeconomic stabilization and internal liberalization, external or trade liberalization constituted the third pillar of the constitutive tryptic of the “Washington Consensus”. Thus, the International Monetary Fund (IMF) did not hesitate to affirm that “Trade policies are among the most important factors of economic growth and of convergence in developing countries” (the IMF, 1997). This point of view is also shared by the United Nations which affirmed in their 2004 report on international trade and poverty reduction in the least developed countries that international trade is an essential tool for poverty reduction in all developing countries, but the links between them are neither simple nor automatic.

However, a set of factors at the end of the years 1990 caused an increasing questioning of this optimistic vision between trade and poverty, interrupting the “golden age” of liberal internationalization: the failure of the structural adjustment policies pursued since the beginning of the 1980s; the persistence of the debt crisis; the Asian crisis of 1997-1998; the increases in poverty and inequalities in many parts of the world, accompanied by an increasing divergence between some emerging countries and most of the developing countries (in particular sub-Saharan African countries) stuck in a “poverty trap”; the increasingly broad awakening of the character of the operating process of the multilateral trade system within the framework of the World Trade Organization (WTO) considered to be inequitable, etc. This questioning provoked big debates concerning the role of trade in development. It also resulted in the definition, under the auspices of the Bretton Woods Institutions, of new development policies centred on poverty reduction and in the definition within the framework of the United Nations of the Millennium Development Goals (MDGs).

At the centre of the debate which brings together the supporters and opponents of globalization is the question of the impact of trade liberalization on poverty, especially in

developing countries. This debate is very important for developing countries since the fight against poverty is at the centre of the concerns of public policies.

ANALYTICAL FRAMEWORK

Various methodological approaches make it possible to assess the impact of trade liberalisation on economic indicators in general and on poverty in particular. Two main methods of analysis can be listed:

- Econometric models (Frankel and Romer, 1999; Rodriguez and Rodrik, 2000; Frankel and Rose, 2002).
- Micro-simulation models such as the calculable general equilibrium model (CGEM) which are largely used to assess the impact of multilateral trade agreements within the framework of WTO or of regional agreements.

The CGEM seems to be a relevant tool when: (i) there exists an interaction between the sectors of activity; (ii) retroactive effects are observed; (iii) shocks are transmitted through the functioning of markets and prices; (iv) an important role of transfers, particularly those of households, is observed; (v) a distribution of income takes place.

The methodology selected within the framework of this study is based on calculable general equilibrium modelling. This modelling necessitated the construction of a specific social accountability matrix (SAM) which responds to the interest of our subject.

The social matrix accountability is constituted from a set of data coming on the one hand from the national accounts (more specifically from Input-Exit Table and on the other hand from household income and expenditure surveys. It retraces all the flows realised in an economic system during a period. Once the SAM constructed, it will constitute a reference situation for our simulation based on the calculable general equilibrium model (CGEM).

Justification of simulation

To verify the impact of trade on poverty in Togo a simulation was carried out. It revolves around the 10 percent increase in the world prices of cash crops. The preparation of an emergency programme of stimulation of the coffee/cocoa sector in the PRSP testifies to the government's interest for these two products, which traditionally occupied the third rank of total exports after phosphates and cotton and which seem to have a renewed interest for producers. At the level of the incentive producer prices, the government intends to strengthen the appropriate market information systems.

For the coffee-cocoa sub-sector, it is the Coordination Committee of the Coffee-Cocoa Sub-sector (CCFCC) which fortnightly informs the producers of the sub-sector about the coffee-cocoa indicative prices on the basis of world prices. This measure facilitates negotiation between producers and buyers on the ground. The objective aimed at by the government is to allow an increase in the nominal income of producers during a period of

good performance of world prices. The choice of a 10% rate of increase in the price of cash products is justified by the bullishness of FOB prices of about 10– 22% percent observed since 2004.

Given the liberalization from which the cash crops sub-sector benefits, any variation of the world prices of these products is directly reflected on producer prices and consequently on production.

RESULTS

The results of simulation were analyzed by considering its effects on the macroeconomic aggregates and the redistribution of income.

a) Macroeconomic effects

An increase in the international prices of cash crops, textiles and greasy substances has a differentiated impact according to the sectors and according to whether it is a matter of production or exports. Indeed, the increase in the world prices of cash crops, in textiles and greasy substances results in an improvement of the incentive prices received by local producers thanks to a 7.1% increase in the domestic price of exported goods for cash crops of 6.4% and 6.2% respectively for textiles and greasy substances (Table 1).

There follows a rise of the volume of exports of cash crops, textiles and greasy substances respectively of 4.1%, 5.1% and 5.4%. Since it is production which is intended to cover the domestic and foreign demands, one consequently understands the increase of about 1.7% that occurred in the production and value added of cash crops, of 0.3 percent for textile products and 3.0% for greasy substances. Considering the weight of the value added of the cash crop, textile and greasy substances branch in the total value added (i.e. 4.7% for cash crops, 2.4% for textiles and 1.8% for greasy substances), the rise of the values added has a limited impact on the total value added and the national revenue (Table 1). However, this low variation of the sectoral value added of cash crops led to a rise of the demand for formal and inform jobs of 2.8% and 2.9% respectively in the branch. The 2.8% rise of domestic prices worsens the price competitiveness of goods and reduces total exports by 0.9%. To maintain the balance of the current balance constant, imports increased by 1.6 %.

Table 1: Macroeconomic effect (as percent)

Food imports	5.7
Cash crop imports	8.9
Food exports	-2.1
Cash crop exports	4.1
Domestic price index	2.1
Final consumption	1.2
Total imports	1.6
Total exports	-0.9
GDP at constant price	0.2

Source: Results of simulation

b) Microeconomic effect on household incomes

Following the 10% increase in the world prices of cash crops, there was an upward variation of the nominal income of urban households of 3.5% and of rural households of about 3.6% (Table 2). This rise of the nominal income can be explained by the increase in wage remunerations and the return of capital. Indeed, capital being fixed in the branches of production considered, following the simultaneous rise of the volume of formal and informal labour used in these branches, one respectively observes a growth of the productivity of the private capital of these branches of about 9.1%, 3.7% and 12.1%. For the whole of the economy, the return of private capital rose by 4%. Wage levels also underwent an upward variation; that of formal labour increased by 3.6% while that of informal labour rose by 3.3%.

Table 2: Microeconomic effect (as percent)

Objective indicators	Formal Abstract				Variation		
	work	work	Capital Transfer	Together	Gross income	Returned Available	
Variation rate of remuneration	3.6	3.3	4.0	3.6	-	-	
Urban	18.0	52.0	10.8	19.1	100.0	3.5	3.6
Rural	8.5	48.8	24.9	17.9	100.0	3.6	3.8

Source: Results of simulation and SAM 2000

RECOMMENDATIONS

The objective of this study is to assess the impact of trade liberalization on poverty reduction in Togo. In this study, a model of static calculable general equilibrium model (SCGEM) was used. Within the framework of this approach, the construction of a CGEM was made in order to as much as possible adhere to the structural characteristics of the Togolese economy. The CGEM thus constructed provides an estimation of price changes and the average income of each group of households (urban or rural) and for the whole of the Togolese economy.

It is on the whole noted that an increase in the international price of the products exported by the Togolese economy has a differentiated impact according to the sectors

and according to whether it is a matter of production or of exports. Indeed, the increase in the world prices of cash crops, textiles and greasy substances results in an improvement of the incentive prices received by local producers thanks to a rise in the domestic price of exported goods.

Following the 10% increase in the world prices of cash crops, there was an upward variation of the nominal income of urban households of 3.5% and of rural households of about 3.6%. This increase of the nominal income can be explained by the increase in wage remunerations and the return of capital.

All in all, the income effect is larger than the price effect, thus justifying the improvement of the purchasing power of Togolese households. There follows a positive equivalent variation, indicating an improvement of the welfare of urban and rural households without, however, bringing out a net disparity between these categories of households. One can thus affirm that foreign trade contributes positively to poverty reduction in Togo.

Considering these results, it is desirable to target the sectors which employ more poor households in order to make them benefit from the subsidies on inputs in order to better fight against poverty in Togo.