

Trade Liberalization and the Poor: A Framework for Poverty Reduction Policies With Special Reference to Some Asian Countries including India

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Abstract

The paper examines the impact of trade liberalization on the poor through its impact on prices and incomes. A simple framework is given which traces the impact of trade liberalization on the poor. There is unambiguous empirical evidence from economies around the globe and for some of the Asian economies included in our sample that trade openness promotes economic growth. Raising economic growth in a sustained manner reduces poverty. Further, for cross section of fourteen Asian economies included in our study no significant relationship could be found between changes in inequality and poverty, and inequality of incomes with economic growth rates and trade openness. However, most of the poor in the developing economies are in the agricultural sector, therefore raising growth in the agricultural sector is essential ingredient for making the reform process successful. The paper provides the basic elements of a good trade policy regime. Some guidelines are given for making trade work for the poor after identifying how the trade regime works. The paper also discusses necessary complementary policies that can make trade policy reform effective. These complementary policies identified are macroeconomic and microeconomic stability, a competitive exchange rate, flexible labor markets and competent product markets. The success of trade reform lies in focusing the reform agenda on agricultural and additionally services sector. It is imminent from the study that these two sectors are key sectors in poverty reduction. These provide a benchmark against which to judge the prevailing trade regime and provide guidance for the direction of reforms for the poor in future.

Also, there is large outstanding agenda that can and should be undertaken by high-income countries that will generate significant benefits for ordinary people in developing countries. These include trade distorting policies in agriculture, disciplining non-tariff measures that restrict trade and removing restrictions on the temporary movement of natural persons supplying services(Stern ,2002).

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