Essays on trade, growth and poverty in developing countries
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The main agenda of this study is to examine the relationship between trade, growth and poverty in developing countries. To assess and explore these relationships, in addition to a literature review, three empirical issues are considered. The aim is to answer the key question: does more openness to trade reduce or exacerbate poverty? The first empirical essay seeks to answer the question on why Sub-Saharan Africa (SSA) has consistently underperformed relative to other developing countries. Is this because the trade-growth relationship is different for SSA? The essay argues that structural variables, as measured by natural barriers to trade and natural resource endowments, are detrimental to export led growth in SSA and this helps to explain poor growth performance. The analysis makes use of panel data for developing countries over 1970-2008 to apply dynamic panel regression methods, and the Hansen (2000) technique to identify any thresholds in the trade-growth relationship. The results show that structural variables do help to explain poor growth in SSA as compared to other developing countries. Trade openness contributes to economic growth, both in the short-run and in long-run, but the impact is affected by the significance of the structural variables; the combination of the two structural factors 'explains' the SSA dummy. Furthermore, there are thresholds for the structural variables below which greater openness to trade has positive effects on economic growth and above which greater openness has negative consequences. This reinforces the argument that to benefit from trade SSA countries have to transform and diversify their economies away from depending on exports of primary commodities to manufacturing and services, and develop infrastructure that lowers trade costs. Using similar data and the same methods, we extend the analysis to examine the link between trade, growth and poverty. On average across countries, we find that growth reduces poverty directly and that the effect of trade on poverty in developing countries is conditional on growth rates. The effects appear to be greater beyond certain levels of growth and Africa does not appear to be an exception to the general results for developing countries. Although trade was found to affect poverty directly in this study, however, as found in other studies, such evidence is not robust. The second essays analyses the effect of observed food price changes on household consumption (welfare) in Tanzania and from this simulates the welfare effect attributable to tax (tariffs and VAT) reforms. The three rounds of the Tanzania Household Budget Survey (1991/92, 2000/01 and 2007) are used to apply Deaton's method based on median unit values (prices) and household budget shares. The results indicate that real price increases over 1991-2007 have reduced welfare of the average household by 20 per cent of 1991 income, and the loss was fairly evenly distributed between the 1990s and 2000s. The welfare loss was much greater for the poor, especially the rural poor (a 27 per cent reduction), compared to the non-poor (in particular the urban non-poor, who suffered a 5 per cent loss). Although we cannot establish explicit links between tax reforms and domestic commodity price changes, to assess the extent to which welfare changes can be explained by tax reforms we simulate the effects of tax changes on domestic price changes. The simulation shows that tax reforms (tariff reductions) offset the welfare losses for all household groups, especially in the 1990s; although the differences were small, the urban poor benefit more in relative terms from tax reforms whereas the rural poor benefit least (the effect on the non-poor was similar irrespective of location).Though it would be incorrect to infer a causal effect of tariffs on household incomes for a number of reasons, the third empirical chapter examines the relationship between protection (tariffs) and household income in Tanzania in the 1990s and 2000s. Tariffs measured at the two digit HS level for the sector in which the household head is employed are matched to Tanzania Household Budget Survey for the years 1991/92, 2000/01 and 2007. We examine the fact that the effects of tariffs on household earnings/income are not evenly distributed across households according to the education level of the household head. There is quite consistent evidence that tariffs protect the incomes of less educated (less skilled) workers more than they protect the incomes of more educated workers. This is consistent with observing that import competition (and hence trade liberalisation) presents a greater challenge to the incomes of relatively less educated (less productive) workers. This appears contrary to the Stolper-Samuelson theorem which suggests that trade liberalisation should help the less skilled (the less educated).