

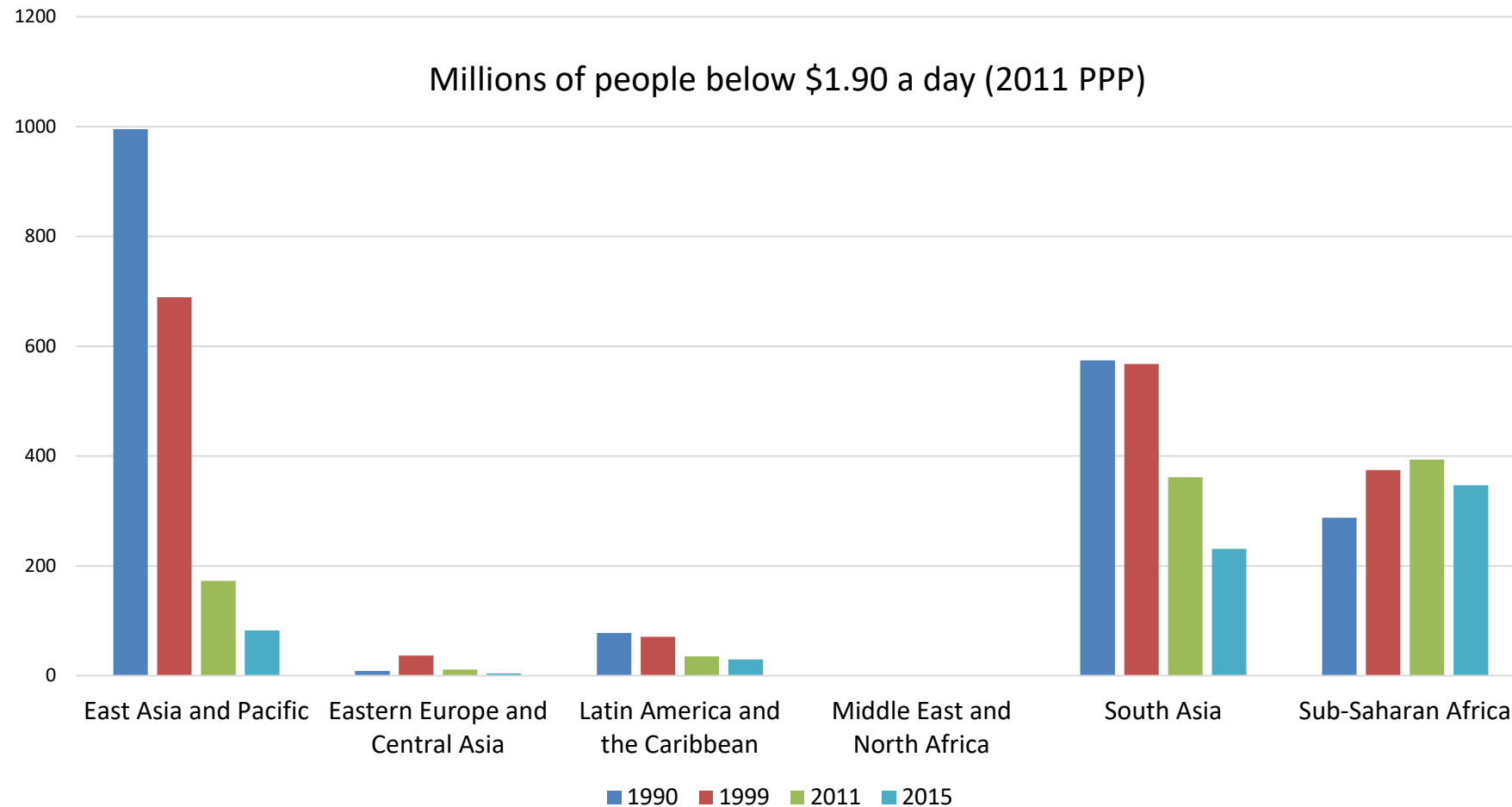
WTO Accession and Impacts on the Poor: The Case of Ethiopia

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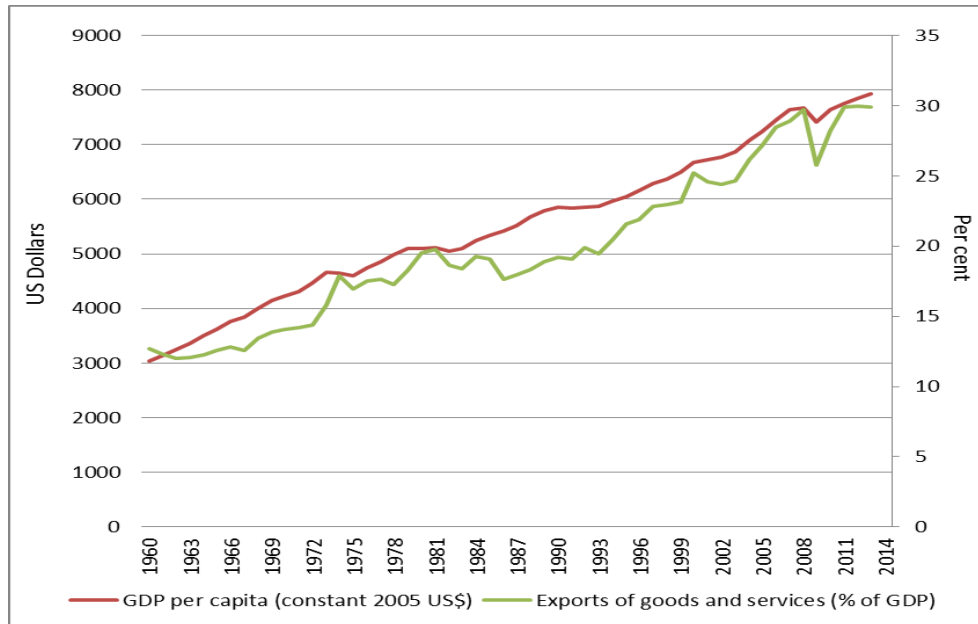
Global poverty has fallen but is still deep in key regions



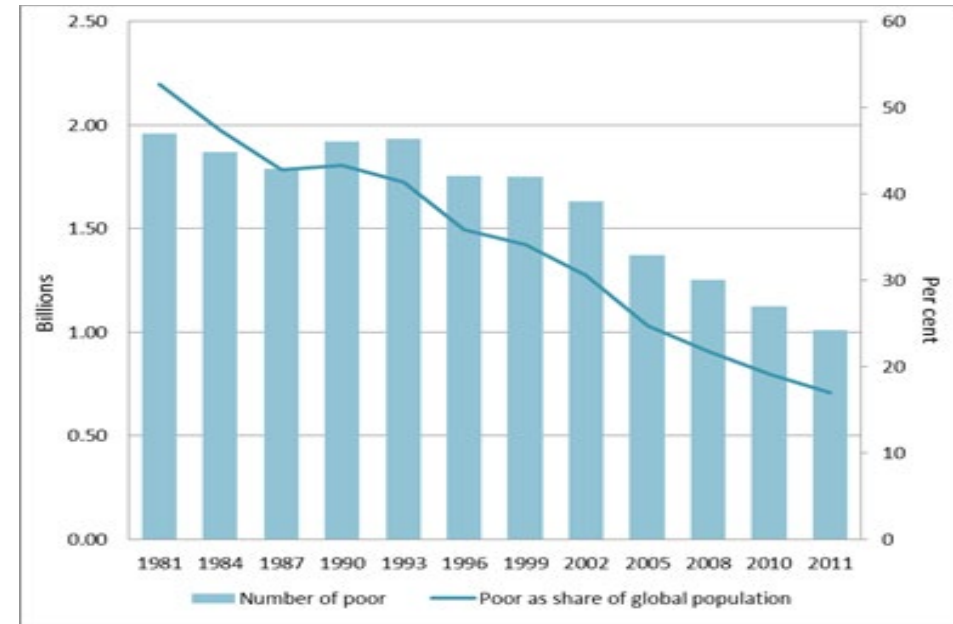
Source: WBG Global Monitoring Report 2015

Trade can be a strong driver of inclusive economic growth and poverty reduction

GDP per capita and world exports, 1960-2014



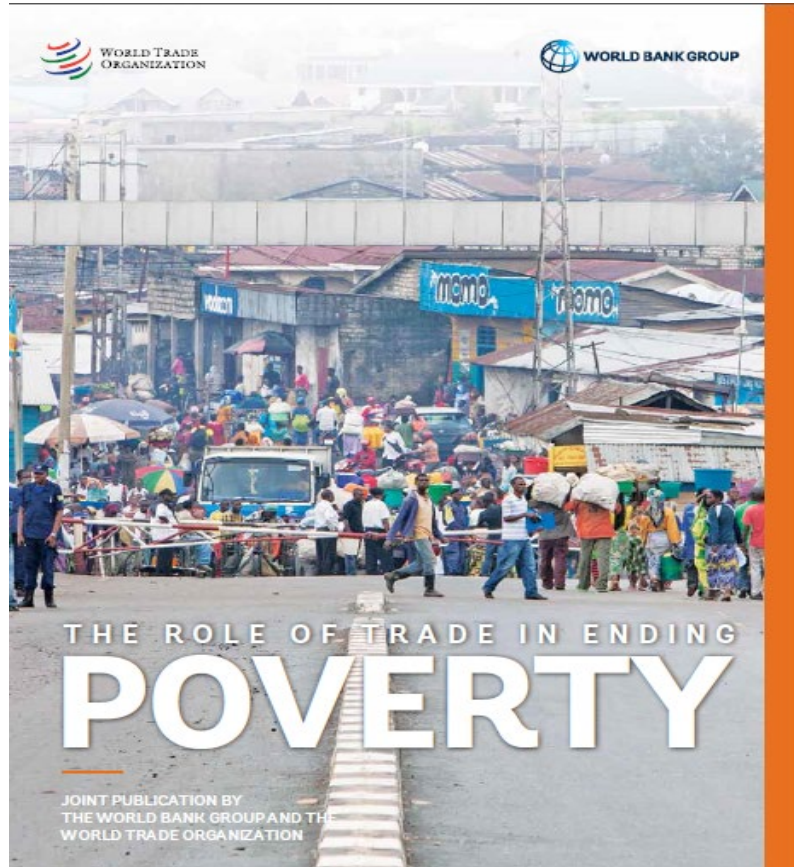
Billions of extreme poor and share of world population



But the benefits of trade reforms may not reach the poor, if they are not connected to markets

Trade reforms can create new opportunities, but may also involve adjustment costs for the poor

Trade must be part of a wider effort



<http://www.worldbank.org/en/topic/trade/publication/the-role-of-trade-in-ending-poverty>



**TRADE AND
POVERTY
REDUCTION:** NEW EVIDENCE
OF IMPACTS IN
DEVELOPING
COUNTRIES



JOINT PUBLICATION BY
THE WORLD BANK GROUP AND THE
WORLD TRADE ORGANIZATION

<http://documents.worldbank.org/curated/en/968461544478747599/Trade-and-Poverty-Reduction-New-Evidence-of-Impacts-in-Developing-Countries>

How may WTO Accession Impact on the Poor? Key Questions

- ☐ How will *border prices* change and how will these be passed onto the poor as consumers, producers and/or workers?
- ☐ Will poor consumers get *access to a wider range of goods and services* and poor producers access to a wider range of inputs?
- ☐ Will changes from WTO accession *affect members of households differently* – especially women and children?
- ☐ Will WTO accession *increase the risks* that the poor face as consumers, producers and workers?
- ☐ Will the *structure of any growth* induced by WTO Accession be equalizing or unequalising?
- ☐ Will impacts be concentrated on particular areas or activities that are of particular relevance to the poor?
- ☐ Will WTO Accession *affect the government's revenues* from trade and ability to fund programs that support the poor?
- ☐ Will *transitional/adjustment costs for the poor be higher* than for the non-poor?
- ☐ Will WTO Accession *improve governance and the rule of law*. The poor are most adversely affected by corruption and weak institutions?

How may WTO Accession Impact on the Poor? Implications

- ◆ Range of potential impacts makes it difficult to generalize on possible outcomes: requires analysis for individual countries
- ◆ Suggests that additional government policies may be required to accompany WTO Accession
 - to assist the poor in adjusting to any negative consequences and to remove barriers that prevent the poor from benefiting from new opportunities created through trade
- ◆ WTO Accession and other trade policy reforms should be integrated into broader development strategy

The Broader Context of Economic Reform in Ethiopia

◆ Job creation is now the main development challenge

- 2 million new entrants to the labor market every year for next decade
- The agricultural sector, employing 70% of the population, cannot sustain this level of workforce growth over time
- Just 12% of workers in Ethiopia work in formal employment

◆ Improving export performance is a policy priority

- Ethiopia exports <10% of GDP compared to 24% expected from a country its size and level of development
- Primary commodities dominate exports with limited processing (coffee and oilseeds account for half).
- Narrow export base - Ethiopia exports fewer products (231) than comparator countries Kenya (708) and Vietnam (2,802).
- Limited overseas markets - Ethiopia reaches only 1.4% of all markets for the products it exports compared to 11.3% for Vietnam.

Figure 1 The Jobs Challenge and a Shifting Age Structure
Total and working-age population,

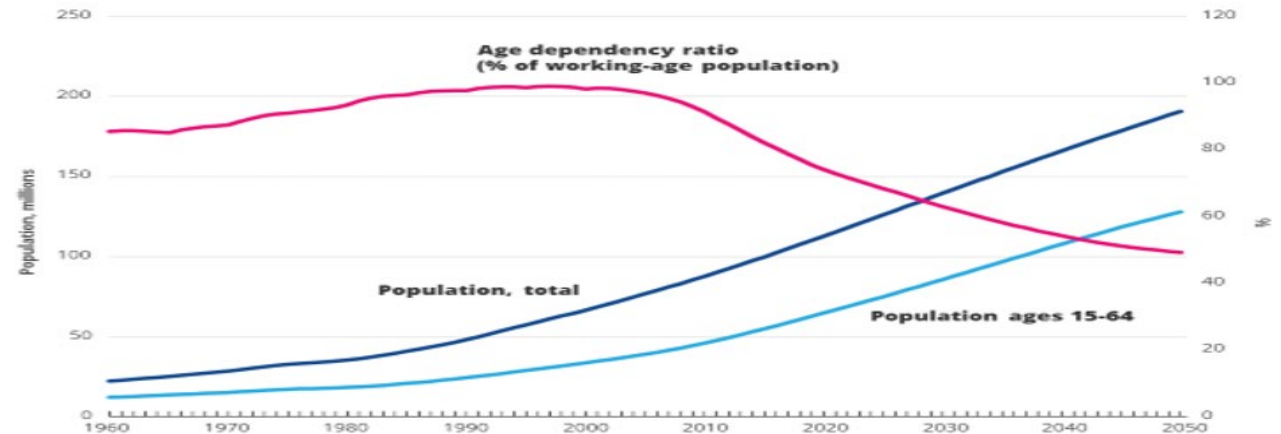
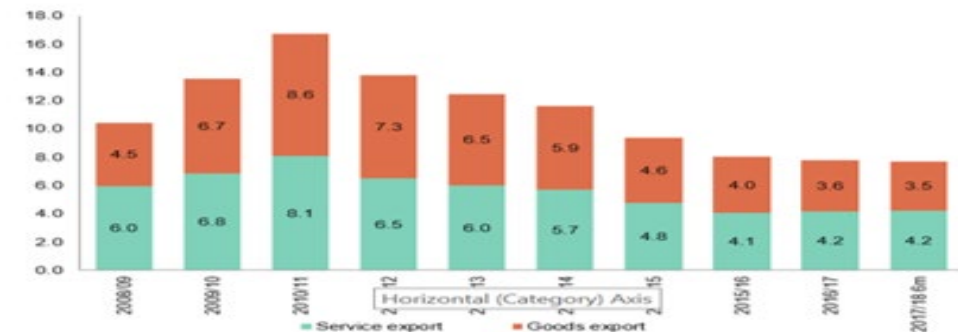


Figure 2 Ethiopia's low export to GDP ratio is declining



Source: NBE and MoFEC.

Ethiopia Poverty Profile

- ◆ Ethiopia remains primarily a rural and agricultural based economy.
 - 80 percent live in rural areas. Agriculture accounts for more than three quarters of employment, 40 percent of output and a third of total exports
- ◆ More than 20 million Ethiopians remain in extreme poverty and the majority of the poor reside in rural areas and engage in agriculture
- ◆ Creating jobs in rural areas—where the majority of the youth live—is of utmost importance
- ◆ **The poor depend on agriculture.** Overall, at least 80 percent of household heads from poor families have their main occupation in agriculture or livestock farming

Trade and the development strategy

- ◆ **The key economic objectives of the government of Ethiopia are to create sufficient and high productivity jobs and drive agricultural and rural development to reduce poverty**
 - increasing role for the private sector;
 - emphasis on industrialisation and increasing exports;
 - raising efficiency in the provision of key backbone services through increased competition
 - additional value added and higher quality/standards of goods and services;

Growth in this context is likely to increase the demand for low-skilled labour in the manufacturing sector, including agro-processing, and increase productivity in agriculture and so be pro-poor.

- ◆ **Trade and greater integration into the global economy can support this development strategy.** Exploiting opportunities in overseas markets for increased exports can increase demand and allow an increase in firm scale while access to critical imported intermediate inputs, technology and investment can enhance productivity throughout the economy.

TRADE POLICIES: ISSUES WITH REGARD TO EXPORT GROWTH AND POVERTY REDUCTION

Ethiopia levies HIGH TRADE TARIFFS increasing the cost of consumer products and creating an anti-export bias: 17.4% average compared to 9.5% for Vietnam.

Tariffs are high on key food and non-food items consumed by the poor. Most of the items regularly consumed by the poor have a tariff of at least 20 percent

Trade is constrained by a range of NONTARIFF MEASURES, for example, clearance procedures; application of technical & quality regulations.

Exporters face challenges in complying with PRODUCT STANDARDS in overseas markets: developing NQI is essential

◆ WTO accession can support poverty reduction in Ethiopia

- By enhancing growth, especially if oriented towards sectors in which the poor are engaged.
- increasing the access of the poor and other marginalised groups to key products and services
- For those with poor health access to affordable medicines is key.
- Improving access to services such as health, education, finance, transport and logistics and energy which are key in escaping from poverty.
- WTO accession can be a key part of a move towards a rules-based market economy with less administrative discretion and corruption – which tends to benefit the poor and long-term poverty reduction.

Other Marginalized Groups: People with health issues

- ◆ Little analysis of how WTO accession can impact on disabled and handicapped people and those facing other health challenges
- ◆ Access to affordable medicines is critical, especially for those marginalised by poor health
- ◆ WTO accession can impact health outcomes by
 - influencing access to medicines through imports and through investment in local drug production facilities;
 - reducing exposure to counterfeit drugs;
 - influencing investment decisions by providers of health care services;
 - raising standards and the quality of medicines and health care;
 - greater competition in financial services that delivers health insurance to a wider population
- ◆ Need to link commitments and the transition period over which they are implemented to:
 - Ethiopia's health strategy,
 - capacities for legal reform and for effective regulation and
 - commitments from WTO members to deliver the necessary financial and technical assistance

Positive impacts from WTO Accession for all cannot be guaranteed

◆ **Additional measures may be required to assist specific groups of the poor and other marginalised groups to adjust to new opportunities but also to greater risks. Issues to be addressed include:**

- ❑ Impact of different options regarding tariff reform on poverty (consumption and employment effects) and government revenues
- ❑ The impact of commitments in services on competition and efficiency and access to key services for the poor (improving access throughout the country, labour retrenchment in SOEs.....)
- ❑ The potential trade-offs in the TRIPs agreement and the implications for the access of the poor and those with health issues and for investment and jobs in the pharmaceutical sector.
- ❑ Impacts of WTO commitments, including the SPS agreement, on the agriculture sector and rural development including the development of the agribusiness sector.
- ❑ Ensuring that commitments are implemented at all levels of government so that benefits from improved governance are captured throughout the economy and across all regions.

Main recommendations

- 1. Design a trade strategy that links trade policies and WTO accession to the country's development objectives including**
 - review of tariff and non-tariff policies, assessment of how commitments in trade in services could support greater competition and efficiency, analysis of possible commitments on trade in health services and IPR with underlying objectives on health related to access to and the production of medicines.
- 2. Develop a WTO accession implementation road map with an explicit poverty lens**
 - synchronize main challenges with financial and technical assistance required for successful implementation of WTO commitments
 - » a legislative action plan,
 - » an institutional capacity building plan,
 - » a program for identifying and addressing constraints that prevent the poor from benefiting from trade and supporting those among the poor who are adversely affected.
- 3. Define a monitoring framework for trade policy and WTO accession that links trade policy changes to expected development outcomes**
 - Goes beyond ticking boxes for legal compliance to implementation and impacts on marginalized groups.
 - Provides feedback on emerging negative impacts on vulnerable groups and mobilizes support for interventions to address these.