Can Trade Help Reduce Poverty?

Speaking at a WorldCity “Connections” breakfast in June, General James T. Hill, the head of U.S. Southern Command, exclaimed that the greatest problem facing Latin America and the Caribbean is poverty. (One would have expected a far different answer from a military man—guerrilla insurgencies, drug-trafficking, anti-democratic movements, terrorism, arms proliferation, corruption, or transnational crime.) At about the same time, the U.N. Commission on Trade and Development (UNCTAD) issued its Least Development Countries Report, reiterating that poverty remains a severe, widespread problem in the Americas, but that trade can help alleviate it.

That poverty is a deep-seated and serious malaise in the Western Hemisphere is inarguable. Of 510 million people in the Latin America and Caribbean region, nearly 175 million people (the size of Brazil), or 30% of the population, live in poverty with 19% living in extreme poverty, according to the World Bank.

The claim from a well-respected multilateral organization that trade can actually lessen poverty is a revelation to many. And although leftists and skeptics will vehemently disagree, empirical evidence abounds that trade and economic liberalization can and do boost incomes, employment, quality of life, and national development.

Trade can contribute to poverty reduction in a myriad of ways. First, trade significantly increases the number of service jobs in both the import and export sectors. The service jobs in these sectors far exceed the number of manufacturing jobs; moreover, many of these jobs tend to be unskilled or low-skilled. Since those in poverty are most likely to fall into this occupational grouping, export-import sector jobs provide a leg up for the unemployed or marginally employed, especially in the large cities of the Americas such as Mexico City and Sao Paulo. Unloading boxes of imported electronics goods for a small appliance store is a real job and a first step for the working poor into the formal economy. The remarkable growth of the retail sector in Latin America and the Caribbean, fueled in part by imported goods, has provided the urban poor both hope and opportunity.

It is unfortunate that almost all discussions of trade liberalization, including those in our own community, center almost exclusively on exports. However, any thorough and honest discussion of free trade and its benefits must acknowledge that global commerce is a two-way street—imports are vitally important to production and consumption and the import sector often creates more jobs more quickly than the export sector.

Trade also helps reduce poverty by facilitating the importation of technology and other inputs to make local industry more competitive. This in turn provides the poor access to more affordable goods of a higher quality. Greater competitiveness allows a number of domestic firms to consider exporting their surplus production and to hire additional service workers from among the working poor to meet their expanded staffing needs. Finally, the overall increase in economic growth produced by trade liberalization generates more tax dollars for redistribution for social sector programs.

While distinguished economists such as Jagdish Bhagwati, Jeffrey Frankel, and David Romer have produced empirical evidence that trade can help alleviate poverty and spur economic growth, trade liberalization cannot cure poverty. Trade reform and market opening cannot be a substitute for well-designed, carefully planned, and effectively implemented anti-poverty programs. Furthermore, if population growth rates among lower socioeconomic groups are high and new cohorts of jobseekers with poor or inappropriate skill sets are large and growing, trade liberalization will produce only a limited impact on employment.

If trade liberalization is truly to serve as an important tool of poverty alleviation in the Western Hemisphere, then governments must create the environment for it to thrive—and that requires sweeping institutional reforms and a major change in political culture. Although General Hill did not reference this requirement in his remarks and the U.N. report barely cited it, attention and commitment to the unfinished agenda of neoliberal reforms (known as “second generation” reforms, encompassing education, health, social welfare, housing, and the judicial system) are urgent and indispensable if trade is to thrive, poverty is to be alleviated, and democratic capitalism and social justice are to finally become a reality in the Americas.